

**CITY OF HARBOR BEACH  
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT  
JUNE 30, 2008**

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# **CITY OF HARBOR BEACH, MICHIGAN**

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## **Report of Independent Auditors**

To the City Council  
City of Harbor Beach  
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Harbor Beach, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2008, on our consideration of the City of Harbor Beach, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and the schedule of funding progress on pages iii through xi and 30 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

## Report of Independent Auditors

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harbor Beach, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of City of Harbor Beach, Michigan. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nietzke & Faupel, P.C.*

NIETZKE & FAUPEL, P.C.  
PIGEON, MICHIGAN

November 28, 2008

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

The Treasurer of the City of Harbor Beach presents this narrative financial information to readers of the City's financial statements. It contains an objective overview and analysis of the financial position of the City as of and for the twelve month period ended June 30, 2008. The City encourages readers to consider information contained in this discussion and contained in the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The City's net assets exceeded its liabilities at the end of the fiscal year by \$14,579,995. This is a \$94,550 decrease from last year due to a decrease in general revenues of approximately \$75,000.
- Net assets decreased by a total of \$94,550, or by approximately 0.64% of last year's total net assets of \$14,674,545.
- Net assets of business-type activities - enterprise funds decreased by \$19,873. Net assets for governmental - type activities - internal service fund (equipment fund) increased by \$79,409 during the fiscal year.
- The total fund balance of governmental funds increased by \$78,340, which is much better than the decrease of \$25,216 for last fiscal year, which was impacted due to the conversion of the parks and recreation department to a governmental fund last fiscal year. Of the \$78,340 increase, the City's general fund showed an increase of \$48,182, which is the first increase of the general funds fund balance since the year ended June 30, 2004. Other governmental funds showed an increase of \$30,158.

**FINANCIAL STATEMENTS OVERVIEW**

This Management Discussion and Analysis serves to introduce to the reader the City of Harbor Beach's essential financial statements. These financial statements consist of three components, as follows:

- **Government-wide financial statements**
- **Fund financial statements**
- **Notes to the financial statements**

The above financial information will provide the reader of the City's financial statements with a general understanding of the City's current financial condition. Also, this report contains supplementary information in addition to the basic financial statements which provide a more detailed understanding of the City's finances.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, similar to private sector businesses.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

The **Statement of Net Assets** presents information on all of the assets and liabilities of the City, with the differences between the two identified as net assets. Over a given period of time, increases or decreases in net assets can serve as a useful indicator of an improving or declining financial position of the City.

The **Statement of Activities** shows changes in net assets that occurred during the most recent fiscal year. These changes were recorded on an accrual basis, which distinguishes between the time when a financial transaction occurs and when payment is actually made. An example of accrual accounting is when debt interest payments are scheduled between the fiscal year ends. The Statement of Activities will show additional interest expense for the time period between the last interest payment and the end of the fiscal year as an accrual.

The government-wide financial statements, in addition to the statement of activities, are broken down into two activities: governmental activities and business-type activities. Governmental activities are primarily supported through tax and intergovernmental revenue. Business-type activities are primarily supported through user fees and charges.

Governmental activities for the City of Harbor Beach include general governmental functions, such as financial administration (City Council and administrative staff), general administration (major and local streets and sidewalk maintenance and public improvements), planning, police, property assessment, zoning administration and sanitation. Business-type activities include sewer, water and the North Park Campground, and the Marina.

Activities not included in this report are the Harbor Beach Area Fire Department and the East Huron Ambulance Service, which are separate entities. Although the City contributes to both entities and has representation on their respective boards, the City has no legislative control over their financial activity.

The government-wide financial statements are found as listed in the table of contents.

### **Fund Financial Statements**

A fund is a set of closely related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The City of Harbor Beach uses fund accounting to demonstrate compliance with legal financial requirements, like all state and local governments. All City funds can be categorized as either governmental or proprietary funds.

**Government funds** account for essentially the same activities as the governmental activities in the Government-wide financial statements, but with a narrower focus. Governmental funds concentrate on near-term inflows and outflows of financial resources and the balances of spendable resources available to the government at the end of the fiscal year. This information can be useful in evaluating the government's short-term financing requirements.

**CITY OF HARBOR BEACH**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FISCAL YEAR - July 1, 2007 to June 30, 2008**

Comparing similar information presented in the government-wide statements for the governmental activities with that presented in governmental fund financial statements can provide useful information because the focus of the two approaches. With the long-term focus of the government-wide financial statements, a reader may be able to better understand the long-term effects of the near term financing decisions. To aid in the comparison, both the government fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance shows a reconciliation between the governmental fund financial statements and the governmental activities in the government-wide financial statements.

The City of Harbor Beach uses two different individual governmental funds. Of these two, information is shown separately for the general fund and for the other governmental funds. There are also two non-major funds identified as the major street and trunkline and local street funds. These are combined into the special revenue fund category. The City adopts an annual appropriated budget for all its governmental funds.

The basic governmental fund financial statements can be found as listed in the table of contents.

**Proprietary funds** include enterprise funds and the internal service fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. The internal service fund is used to report activities that provide goods or services to other funds or departments of the City.

The enterprise funds maintained by the City of Harbor Beach include water, sewer, water/sewer capital projects, the marina, and North Park Campground. The City uses the internal service fund to account for vehicles and equipment activities. Because they charge fees and charges to outside users of their systems, the enterprise funds are included in the business-type activities column of the government-wide financial statements. The internal service fund, which accounts for equipment and vehicles that support City functions, is included under the governmental activities column.

Proprietary funds present the same information as in the government-wide financial statements, except in more detail. The fund statements for proprietary funds provide separate information for the water, sewer, marina, and North Park Campground, which are considered to be major funds of the City of Harbor Beach.

The basic proprietary fund financial statements can be found as listed in the table of contents.

**Notes to the financial statements** contain additional financial information to give the reader a complete understanding of the information contained in the government-wide and fund financial statements. Although these notes provide detailed explanation and information related to the financial statements, this information is typically easy for the reader to follow. Notes to the financial statements are located after the financial statements as listed in the table of contents.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

**OTHER INFORMATION**

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund financial statements and schedules are listed in the table of contents.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

	Statement of Net Assets			
	Governmental Activities	Business-Type Activities	2008 Total	2007 Total
Current assets	\$ 2,514,514	\$ 1,193,669	\$ 3,708,183	\$ 2,958,864
Capital assets	7,250,770	13,734,383	20,985,153	17,666,679
Restricted and other assets	178,248	1,157,608	1,335,854	1,654,488
Total assets	<u>\$ 9,943,530</u>	<u>\$ 16,085,660</u>	<u>\$ 26,029,190</u>	<u>\$ 22,280,031</u>
Current liabilities	\$ 144,387	\$ 618,480	\$ 762,867	\$ 440,310
Long-term liabilities	1,000,300	9,686,028	10,686,328	7,165,178
Total liabilities	<u>\$ 1,144,687</u>	<u>\$ 10,304,508</u>	<u>\$ 11,449,195</u>	<u>\$ 7,605,488</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 6,627,283	\$ 3,656,427	\$ 10,283,710	\$ 10,755,377
Restricted	178,246	1,014,559	1,192,805	1,411,362
Unrestricted	1,993,315	1,110,165	3,103,480	2,507,805
Total net assets	<u>\$ 8,798,843</u>	<u>\$ 5,781,152</u>	<u>\$ 14,579,995</u>	<u>\$ 14,674,544</u>

As shown in the statement of net assets provided above, the largest portion, by far, of the net assets of the City of Harbor Beach is its investment in capital assets. The seventy and six tenths percent (70.6%) of total net assets represents the City's investment in land and land improvements, curb, gutter and sidewalk; roads and storm drains; water and sewer lines; streetlights and signals; buildings; machinery and equipment, less any related outstanding debt that was used to acquire these assets. The City of Harbor Beach uses these capital assets to provide essential services to citizens who live, work or visit the City. These assets, by design, are not available for future spending. Additionally, even though these capital assets are reported net of any related debt, resources needed to repay this debt must come from other sources, as these assets cannot be used to satisfy their related obligations.

Of the remaining net assets of the City, eight and two tenths percent (8.2%) are subject to external restrictions on how they may be expended (restricted assets). The balance of net assets, which total twenty one and two-tenths percent (21.2%) can be used to meet the City's ongoing obligations to its creditors and citizens (unrestricted assets).

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

**ACTIVITIES, GOVERNMENTAL AND BUSINESS-TYPE**

Net Assets in governmental activities showed a change (decrease) of \$74,677. This decrease comprises about eight tenths percent (.8%) of the total beginning net assets of \$8,873,520.

Net assets for business-type activities decreased by a total of \$19,873 for the year ended June 30, 2008. This decrease is not significant as it comprises about three tenths percent (0.3%) of the beginning net assets for business-type activities. It is important to note that the City Council has raised sewer rates significantly to support the sanitary sewer retention basin bond issued during the fiscal year ended June 30, 2008. Finally, the City historically has not funded depreciation, and the reader should take this into account when analyzing the business-type activities, as depreciation is a significant portion of expenditures.

	Change in Net Assets		2008	2007
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Total</u>
Revenue:				
Program revenues:				
Charges for services	\$ 115,512	\$ 1,652,378	\$ 1,767,890	\$ 1,659,059
Operating grants and contributions	54,258		54,258	96,801
Capital grants and contributions		67,350	67,350	
General revenues:				
Property taxes	1,123,695	329,371	1,453,066	1,408,218
State shared revenue	368,382		368,382	368,573
Unrestricted investment earnings	79,857	78,580	158,437	191,215
Miscellaneous	14,496		14,496	14,355
Gain on sale of capital assets	813	239	1,052	29,879
Total revenue	<u>1,757,014</u>	<u>2,127,917</u>	<u>3,884,930</u>	<u>3,768,100</u>
Expenses:				
General government	761,293		761,293	796,532
Public safety	410,716		410,716	425,358
Highways and public improvements	425,462		425,462	397,560
Sanitation	93,960		93,960	91,134
Parks and recreation	191,311		191,311	180,966
Interest on long-term debt	23,923		23,923	25,799
Water		813,255	813,255	829,987
Sewer		803,910	803,910	866,387
North Park Campground		178,605	178,605	166,774
Marina		275,047	275,047	290,534
Total expenses	<u>1,906,664</u>	<u>2,070,817</u>	<u>3,977,481</u>	<u>4,071,031</u>
Change in net assets before transfers	(149,650)	57,100	(92,550)	(302,931)
Transfers	74,973	(76,973)	(2,000)	(3,524)
Change in net assets	(74,677)	(19,873)	(94,550)	(306,455)
Net assets - beginning	<u>8,873,520</u>	<u>5,801,024</u>	<u>14,674,545</u>	<u>14,981,000</u>
Net assets - ending	<u>\$ 8,798,843</u>	<u>\$ 5,781,152</u>	<u>\$ 14,579,995</u>	<u>\$ 14,674,545</u>

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

**FINANCIAL ANALYSIS OF CITY OF HARBOR BEACH FUNDS**

The City of Harbor Beach governmental funds provide information on short-term resource inflows and outflows and account balances at the end of the fiscal year. The total fund balance is a measure of total available resources and the unreserved portion of this total is a measure of the available spendable resources as of June 30, 2008.

For the period ended June 30, 2008, the City's governmental funds reported a combined fund balance of \$1,802,063, an increase of \$78,340 from July 1, 2007 of \$1,723,723.

The general fund is the main operating fund for the City. As of June 30, 2008, the fund balance in the general fund is \$883,228. At the start of the fiscal year on July 1, 2007, the fund balance was \$835,046, resulting in an increase in fund balance of \$48,182. This is the first increase in four years and is due to a significant decrease in outgoing operating transfers from \$57,000 to \$12,000 to other funds. The general fund revenue decreased by \$29,917 this fiscal year, down to \$1,480,274 from last fiscal year revenue of \$1,510,191. The revenues are in line with last year considering that last year the City had an extra \$35,000 in revenue from selling the old City Hall. The general fund expenditures this fiscal year totaled \$1,439,060, a decrease of \$96,664 from last fiscal year expenditures of \$1,535,704. General government, police, and capital outlay expenditures decreased by a total of \$126,322 or 12.4% from the prior year's expenditures for those categories.

The City proprietary funds provide the same type of financial information found in the government-wide financial statements, but in more detail. The total net assets in business-type activities were \$5,781,152 and for government activities (internal service fund) were \$1,021,234.

For business-type activities, the following information is provided for the appropriate enterprise fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Sewer	\$ 7,670,866	\$ 5,151,936	\$ 2,518,930
Water	\$ 7,399,624	\$ 5,126,670	\$ 2,272,954
North Park	\$ 48,036	\$ 19,077	\$ 463,959
Marina	\$ 792,713	\$ 309,292	\$ 483,421

For governmental activities (internal service fund), the following information is provided for the internal service fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Equipment rental	\$ 1,024,259	\$ 3,025	\$ 1,021,234

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

**NON-MAJOR GOVERNMENTAL FUNDS**

The City's non-major governmental funds, which include the special revenue funds of the major street and trunkline, local street funds and the capital project fund of the City, performed fairly well during the 2007-08 fiscal year. The major street and trunkline fund showed an increase in fund balance of \$28,038 with the total fund balance ending the year at \$324,318. The local street fund showed a decrease in fund balance of \$9,149 with the total fund balance ending the year at \$403,190. The capital project fund also showed an increase in fund balance of \$7,760, ending the fiscal year at \$178,245.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund for the City showed its first fund balance increase since 2004 in the 2007-08 fiscal year. This is mainly attributed to decreased expenditures and a decrease in transfers to other funds from \$57,000 to \$12,000. The fund balance showed an increase of \$48,182. However in the original 07-08 budget, \$95,000 was budgeted to build a new garage addition to City Hall. The garage was not built and was not included in the budget for 08-09. It should also be noted that as of June 30, 2008, the parks and recreation fund owes the general fund \$29,986 and the marina fund owes the general fund \$186,236 plus a loan from prior years for dredging in the amount of \$108,678.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The City of Harbor Beach's investment, net of related debt, in capital assets for its governmental and business-type activities combined totaled \$10,283,710. The type of assets in this category include land, land improvements, buildings, machinery and equipment, parks and recreation facilities, roads (including curb and gutter, sidewalks and storm drains), street lights, traffic signals, water and wastewater distribution, and sewer collection systems and treatment facilities. The City's investment in capital assets equals over seventy percent (70%) of its total net assets.

The City of Harbor Beach's debt consists of a 1993 Water Supply and Distribution System Bond (\$5,199,478 principal and interest), a 2000 Public Improvement Bond (\$221,144 principal and interest), a Harbor Beach Consolidated Drain Assessment (\$498,164 principal and interest), a 2003 Installment Purchase Agreement (\$500,707 principal and interest), a 2004 Capital Improvement Bond (\$1,178,890 principal and interest) and a 2006 General Obligation Refunding Bond (\$2,952,450 principal interest).

During the fiscal year ended June 30, 2008, the City received bond proceeds in the amount of \$4,022,423 for the construction of a sewer retention basin. The bond was obtained from the Michigan Department of Environmental Quality to finance the construction of the retention basin. The total bond issue is for \$4.6 million and is to be paid back over 20 years at an annual interest rate of 1.625%. At June 30, 2008, the construction of the retention basin was still in progress and the final construction costs were expected to be paid by the end of 2008.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

**Budget**

The current fiscal year budget (2008-09) is at \$3,658,000, which is \$224,000 less than the 2007-2008 fiscal year budget of \$3,882,000. This decrease is mainly due to projects and purchases such as an addition to City Hall, new cabinets in the City Hall office, and a new car, which total \$130,000. These items were budgeted in 2007-2008 but were not included in the 2008-2009 budget. The budget for the water fund also decreased \$50,000 from 07-08 to 08-09. Similar to 07-08, the general fund budget projects only two funds in the City budget to receive an appropriation outgoing transfer which amounts to only \$12,000. As noted previously, large appropriation outgoing transfers have been a major factor in a declining fund balance in the general fund. This reduction in appropriation outgoing transfers should lead to a healthier general fund in the current fiscal year.

The water fund continues to grow as additional customers are added to the City's water distribution system. Last year, operation and maintenance of the water plant was privatized, which did not save on expenditures, but didn't increase costs either. The financial statements show that the operating expenses stayed relatively stable from year end 2007 to year end 2008. The sewer fund is showing significant improvement over last year, even though it still operated at a loss. The City has shown increased revenue from the substantial change in the billing of industrial users, and the operating expenses decrease of \$63,906 from last fiscal year.

The City took steps to reduce health care costs which became effective April 1, 2008. Due to this change the 08-09 fiscal year should have substantial reductions in health care costs from fiscal year 07-08 and should be less than the health care costs for the 06-07 fiscal year.

The current fiscal year budget for the City contains few major expenditures or projects for 2008-2009. The sewer fund has \$60,000 budgeted to cover anticipated filter pressing. The water fund operations continue to be contracted by Wade-Trim. Lastly, the equipment fund has \$95,000 budgeted to purchase a new dump/plow truck. As mentioned earlier, the office remodel project and construction of additional garage/storage space at City Hall have been again postponed.

Construction of the sanitary sewer retention basin project finished in the summer of 2008 and Wade Trim is finishing up in the fall of 2008. The project is being financed through a low-interest (1.625%) State Revolving Fund loan (SRF) received from the State Department of Environmental Quality (MDEQ). The two-million gallon storage facility is budgeted at approximately four million six hundred thousand dollars (\$4,600,000). This debt service is being paid through an increase in sewer rates for all City residential, commercial, and industrial customers.

The City will continue efforts to increase economic development through utilization of several state and federal grant and loan programs, where applicable. During the current fiscal year, the City has received two grants from the Michigan Department of Natural Resources for a silt abatement project at the Municipal Marina (\$9,850) and for restoration of the City's dredge disposal site (\$22,163). The City anticipates submitting grant applications for a recreation enhancement project in association with the new sanitary sewer retention basin project. The goal is to transform the retention basin into a useable recreation facility which will be a focal point in waterfront development at the site.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2007 to June 30, 2008**

Examples of grant and loan programs the City has utilized include the Community Development Block Grant (CDBG) program, Urban Land Assembly (ULA) loan program, Coastal Zone Management (CZM) grants, Natural Resources Trust Fund program, and Land and Water Conservation Fund grants. Economic development programs the City has taken advantage of are the establishment of a Local Development Finance Authority (LDFA), a Downtown Development Authority (DDA), and a Brownfield Redevelopment Authority (BRA). The City continues efforts to attract new business and industry and to encourage existing business and industry to grow.

**Rates**

The revenue stream for the water fund has been excellent the last few years, mainly due to annual increases in the water rate of two and one-half percent (2.5%) and also in the sewer rate of three and one-half percent (3.5%). However, the water rate has not increased for the previous three fiscal years due to excellent performance in the water fund due to additional customers from Sand Beach Township, Huron Township and the Village of Forestville. These customers are billed at 1 ½ times the City residential rate. Negotiations for sale of water to Forester Township in Sanilac County continue. The sewer rate increases of approximately twenty three and two tenths percent (23.2%) on July 1, 2007 and another twenty one and four tenths percent (21.4%) on July 1, 2008 were solely for the retirement of the bond that was issued for the sanitary sewer retention basin.

As stated previously, industrial customers of the City are paying a new, higher rate based on their flow, which will bring in additional revenue. Also, industrial fee surcharges are being modified to better reflect their unique composition of flow parameters to the wastewater treatment plant.

**REQUESTS FOR INFORMATION**

This financial report is designed to give the reader a basic understanding of the finances for the City of Harbor Beach. Any questions or requests for financial information contained in this report may be obtained by contacting the Treasurer, City of Harbor Beach, 766 State Street, Harbor Beach, Michigan 48441.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF HARBOR BEACH, MICHIGAN

## STATEMENT OF NET ASSETS JUNE 30, 2008

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <u>ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash	\$ 2,173,642	\$ 1,255,798	\$ 3,429,440
Accounts receivable	26,818	174,208	201,026
Taxes receivable	22,441		22,441
Accrued interest	2,104	1,451	3,555
Due from other governments	28,931		28,931
Inventory		22,791	22,791
Internal balances	260,579	(260,579)	
Nondepreciated capital assets	2,727,922		2,727,922
Capital assets	10,741,980	21,480,969	32,222,949
Less accumulated depreciation	(6,219,132)	(11,885,657)	(18,104,789)
Construction in progress		4,139,071	4,139,071
Restricted assets:			
Cash:			
Water and sewer project	178,246		178,246
Wastewater bond reserve		37,748	37,748
Wastewater treatment replacement		135,001	135,001
Water system revenue bond		101,735	101,735
Water bond reserve		317,450	317,450
Water equipment replacement		422,625	422,625
Deferred charges		143,048	143,048
<b>TOTAL ASSETS</b>	<u>\$ 9,943,530</u>	<u>\$ 16,085,660</u>	<u>\$ 26,029,190</u>

# CITY OF HARBOR BEACH, MICHIGAN

## STATEMENT OF NET ASSETS JUNE 30, 2008

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
<u>LIABILITIES</u>			
Accounts payable	\$ 14,034	\$ 142,420	\$ 156,454
Accrued payroll and related taxes	52,360	13,118	65,478
Accrued interest payable	8,509	49,111	57,620
Compensated absences	94,487	21,905	116,392
Drain assessment payable	351,810		351,810
Payable from restricted assets:			
Current maturities of debt	69,485	413,832	483,317
Long-term bonds payable	554,002	9,664,123	10,218,125
<b>Total liabilities</b>	<u>1,144,687</u>	<u>10,304,508</u>	<u>11,449,195</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	6,627,283	3,656,427	10,283,710
Restricted for:			
Debt service		456,933	456,933
Capital projects	178,246	557,626	735,872
Unrestricted	1,993,315	1,110,165	3,103,480
<b>Total net assets</b>	<u>\$ 8,798,843</u>	<u>\$ 5,781,152</u>	<u>\$ 14,579,995</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF HARBOR BEACH, MICHIGAN**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

	PROGRAM REVENUES			NET (EXPENSE) REVENUES & CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
<b>Governmental Activities:</b>						
General government	\$ 761,293	\$ 2,259			\$ (759,034)	\$ (769,034)
Public safety	410,716				(410,716)	(410,716)
Highways and public improvements	425,462	5,676			(419,786)	(419,786)
Sanitation	93,960	82,750			(11,209)	(11,209)
Parks and recreation	191,311	24,827	\$ 54,258		(112,226)	(112,226)
Interest on long-term debt	23,923				(23,923)	(23,923)
<b>Total governmental activities</b>	<b>1,905,564</b>	<b>115,512</b>	<b>54,258</b>		<b>(1,736,894)</b>	<b>(1,736,894)</b>
<b>Business-Type Activities:</b>						
Water	813,255	761,478				\$ (51,777)
Sewer	803,910	491,467	\$ 67,350			(245,093)
North Park	178,605	213,555				34,949
Marina	275,047	185,878				(89,169)
<b>Total business-type activities</b>	<b>2,070,817</b>	<b>1,652,378</b>	<b>67,350</b>		<b>(351,090)</b>	<b>(351,090)</b>
<b>Total Government</b>	<b>\$3,977,481</b>	<b>\$ 1,767,890</b>	<b>\$ 54,258</b>	<b>\$ 67,350</b>	<b>(1,736,894)</b>	<b>(2,087,984)</b>
<b>General Revenue:</b>						
Property taxes					1,123,695	1,463,066
State shared revenues					368,382	368,382
Unrestricted investment earnings					79,857	158,437
Miscellaneous					14,496	14,496
Gain on sale of capital assets					813	1,052
Transfers - net					74,973	(2,000)
<b>Total general revenues and transfers</b>					<b>1,662,217</b>	<b>1,993,434</b>
Change in net assets					(74,677)	(94,550)
<b>Net assets - beginning</b>					<b>8,873,520</b>	<b>14,674,545</b>
<b>Net assets - ending</b>					<b>\$ 8,798,843</b>	<b>\$ 14,579,995</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF HARBOR BEACH, MICHIGAN**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<u>GENERAL</u>	<u>PARKS AND RECREATION</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>				
Cash	\$ 581,066	\$ 50,028	\$ 890,921	\$ 1,522,015
Accounts receivable	26,785	33		26,818
Accrued interest			1,101	1,101
Due from other funds	221,222	500		221,722
Due from other governments	1,761		27,170	28,931
Note receivable - Other funds	108,678			108,678
<b>TOTAL ASSETS</b>	<b>\$ 939,512</b>	<b>\$ 50,561</b>	<b>\$ 919,192</b>	<b>\$ 1,909,265</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b><u>Liabilities:</u></b>				
Accounts payable	\$ 7,276	\$ 2,857	\$ 1,162	\$ 11,295
Accrued payroll and related taxes	44,200	4,636	3,239	52,075
Due to other funds	4,808	29,986	9,038	43,832
<b>Total liabilities</b>	<b>56,284</b>	<b>37,479</b>	<b>13,439</b>	<b>107,202</b>
<b><u>Fund balances:</u></b>				
Unreserved, reported in:				
General Fund	883,228			883,228
Special Revenue Funds		13,082	727,507	740,589
Capital Projects			178,246	178,246
<b>Total fund balances</b>	<b>883,228</b>	<b>13,082</b>	<b>905,753</b>	<b>1,802,063</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 939,512</b>	<b>\$ 50,561</b>	<b>\$ 919,192</b>	<b>\$ 1,909,265</b>

The accompanying notes are an integral part of the financial statements.

**CITY OF HARBOR BEACH, MICHIGAN**

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES  
TO GOVERNMENTAL ACTIVITIES NET ASSETS  
JUNE 30, 2008**

**Total governmental fund balances** \$ 1,802,063

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore, are not reported in the funds. The cost of the assets is  
\$13,469,902 less the accumulated depreciation of \$6,219,132. 7,250,770

Interest on general obligation and lease revenue bonds are not accrued  
in governmental funds but rather is recognized as an expenditure  
when due. (8,509)

Delinquent taxes receivable are not current financial resources for the  
governmental fund. 22,441

Internal service fund is not included in the governmental funds. 801,862

Long-term liabilities, including bonds payable, are not due and payable  
in the current period and, therefore, are not reported in the funds. (1,069,784)

**Net assets - governmental activities** \$ 8,798,843

**CITY OF HARBOR BEACH, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>GENERAL</u>	<u>PARKS AND RECREATION</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUE:</b>				
Taxes	\$ 1,051,324			\$ 1,051,324
Licenses and permits	700			700
Intergovernmental	211,382	\$ 1,883	\$ 227,342	440,606
Charges for services	183,009	20,182	1,776	204,967
Fines and forfeitures	6,113			6,113
Contributions		52,375		52,375
Miscellaneous	27,747	5,475	30,641	63,863
<b>TOTAL REVENUE</b>	<u>1,480,274</u>	<u>79,915</u>	<u>259,759</u>	<u>1,819,947</u>
<b>EXPENDITURES:</b>				
Current:				
Legislative	11,757			11,757
Elections	1,347			1,347
Financial and administration	296,174		6,600	302,774
General	516,843			516,843
Police department	331,491			331,491
Planning	21,590			21,590
Street lighting	57,984			57,984
Sanitation	91,956			91,956
Streets			229,515	229,515
Parks and recreation		142,219		142,219
Capital outlay	47,072			47,072
Debt service:				
Principal	38,897			38,897
Interest	23,947			23,947
<b>TOTAL EXPENDITURES</b>	<u>1,439,060</u>	<u>142,219</u>	<u>236,115</u>	<u>1,817,394</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>41,214</u>	<u>(62,304)</u>	<u>23,644</u>	<u>2,554</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of fixed assets		813		813
Operating transfers in	18,968	65,000	77,623	161,591
Operating transfers (out)	(12,000)		(74,618)	(86,618)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>6,968</u>	<u>65,813</u>	<u>3,005</u>	<u>75,786</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>48,182</u>	<u>3,509</u>	<u>26,649</u>	<u>78,340</u>
<b>FUND BALANCE - JULY 1</b>	<u>835,046</u>	<u>9,573</u>	<u>879,104</u>	<u>1,723,723</u>
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 883,228</u>	<u>\$ 13,082</u>	<u>\$ 905,753</u>	<u>\$ 1,802,063</u>

## CITY OF HARBOR BEACH, MICHIGAN

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances - governmental funds \$ 78,340

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds report capital outlays as expenditures. However, in the *Statement of Activities*, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 89,116	
Depreciation expense	<u>(388,924)</u>	(299,808)

Some expenses reported in the *Statement of Activities* do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 3,512

The net revenue of certain activities of the internal service fund is reported with governmental activities. 72,565

Delinquent property taxes are not considered "available" revenues and are not recorded in the governmental funds.

Beginning taxes receivable	(20,411)	
Ending taxes receivable	<u>22,441</u>	2,030

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the *Statement of Net Assets*. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the *Statement of Net Assets* and does not affect the *Statement of Activities*. In the current period, these amounts are:

Bond repayments	92,607	
Change in accrued interest on bonds	<u>(23,923)</u>	
Net effect		68,684

Change in net assets of governmental activities \$ (74,677)

**CITY OF HARBOR BEACH, MICHIGAN**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2008**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER</u>	<u>NORTH PARK</u>	<u>MARINA</u>	<u>TOTALS</u>	
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash	\$ 558,158	\$ 641,294	\$ 14,451	\$ 41,895	\$ 1,255,798	\$ 829,872
Accounts receivable	81,229	92,979			174,208	
Accrued interest receivable	523	928			1,451	1,004
Due from other funds						15,899
Inventory				22,791	22,791	
<b>Total current assets</b>	<u>639,910</u>	<u>735,201</u>	<u>14,451</u>	<u>64,686</u>	<u>1,454,248</u>	<u>846,775</u>
<b>Noncurrent assets:</b>						
Capital assets	7,991,036	9,313,906	1,082,124	3,303,903	21,480,969	1,087,095
Less accumulated depreciation	(5,038,104)	(3,568,137)	(613,539)	(2,865,877)	(11,885,657)	(909,511)
Construction in progress	4,139,071				4,139,071	
Deferred charges	66,204	76,844			143,048	
<b>Total noncurrent assets</b>	<u>6,458,207</u>	<u>5,822,613</u>	<u>468,585</u>	<u>728,026</u>	<u>13,677,431</u>	<u>177,484</u>
<b>Restricted assets:</b>						
Cash:						
Wastewater treatment replacement	135,001				135,001	
Wastewater bond reserve	37,748				37,748	
Water system revenue bond		101,735			101,735	
Water bond reserve		317,450			317,450	
Water equipment replacement		422,625			422,625	
<b>Total restricted assets</b>	<u>172,749</u>	<u>841,810</u>			<u>1,014,560</u>	
<b>TOTAL ASSETS</b>	<u>\$ 7,870,866</u>	<u>\$ 7,399,624</u>	<u>\$ 483,036</u>	<u>\$ 792,713</u>	<u>\$ 16,346,239</u>	<u>\$ 1,024,259</u>
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ 72,752	\$ 56,762	\$ 3,473	\$ 9,433	\$ 142,420	\$ 2,740
Due to other funds	244	1,808	5,500	186,236	193,788	
Accrued payroll and related taxes	5,721	948	4,371	2,078	13,118	285
Accrued interest payable	19,887	29,225			49,111	
Compensated absences	13,305		5,733	2,867	21,905	
Current maturities of debt	243,902	169,930			413,832	
<b>Total current liabilities</b>	<u>355,811</u>	<u>258,672</u>	<u>19,077</u>	<u>200,614</u>	<u>634,174</u>	<u>3,025</u>
<b>Noncurrent liabilities:</b>						
Long-term bonds payable	4,796,125	4,867,998			9,664,123	
Notes payable - other funds				108,678	108,678	
<b>Total noncurrent liabilities</b>	<u>4,796,125</u>	<u>4,867,998</u>		<u>108,678</u>	<u>9,772,801</u>	
<b>Total liabilities</b>	<u>5,151,936</u>	<u>5,126,670</u>	<u>19,077</u>	<u>309,292</u>	<u>10,606,975</u>	<u>3,025</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	1,751,976	707,841	468,585	728,025	3,556,427	177,484
Restricted for:						
Debt service	37,748	419,185			456,933	
Capital projects	135,001	422,625			557,626	
Unrestricted	594,205	723,303	(4,623)	(244,604)	1,068,278	843,750
<b>Total net assets</b>	<u>\$ 2,518,930</u>	<u>\$ 2,272,954</u>	<u>\$ 463,959</u>	<u>\$ 483,421</u>	<u>5,739,264</u>	<u>\$ 1,021,234</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds					41,883	
<b>Net assets of business-type activities</b>					<u>\$ 5,781,152</u>	

## CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER</u>	<u>NORTH PARK</u>	<u>MARINA</u>	<u>TOTALS</u>	
<b>OPERATING REVENUE:</b>						
Charges for services	\$ 491,267	\$ 691,605	\$ 205,668	\$ 53,658	\$ 1,442,199	\$ 150,546
Permits	200	200			400	
Sale of materials and labor		9,672	7,887	132,220	149,779	
Fire hydrant rental		60,000			60,000	
<b>TOTAL OPERATING REVENUE</b>	<u>491,467</u>	<u>761,478</u>	<u>213,555</u>	<u>185,878</u>	<u>1,652,378</u>	<u>150,546</u>
<b>OPERATING EXPENSES:</b>						
Salaries	168,889	15,157	49,924	28,079	262,049	9,419
Fringe benefits	89,746	21,659	18,058	9,549	139,011	4,490
Administrative cost	38,000	38,000	9,000	7,000	92,000	1,000
Cost of merchandise & petroleum sold			500	97,269	97,767	
Supplies	9,511	1,761	8,826	3,753	23,852	7,571
Office expense		601		739	1,339	
Postage	791		196	91	1,078	
Clothing	107				107	
Chemicals	17,322				17,322	
Professional services	1,136	342,776	1,908	1,550	347,460	1,100
Contracted services	37,846	1,257	971		40,074	
Community promotion			2,230	649	2,880	
Telephone	1,159	50	2,017	1,504	4,731	1,213
Transportation	2,027	15		640	2,682	21,672
Insurance	7,847	5,120	1,249	4,964	19,180	4,677
Utilities	51,942	3,292	41,756	11,305	108,294	
Equipment maintenance	8,338	984	6,837	8,482	24,641	2,926
Maintenance of mains	2,040	10,637			12,677	
Equipment replacement	2,316				2,316	
Repairs and maintenance	5,015	1,360			6,375	
Equipment rental	8,338	10,771	1,425	742	21,276	
Licenses and fees	2,143			633	2,776	
Sales tax			93	7,854	7,947	
Diesel tax				1,977	1,977	
Education and training	1,436				1,436	
Dues and subscriptions	651		510	50	1,220	
Capital outlay	2,086				2,086	
Depreciation	295,901	163,336	32,087	85,110	576,434	51,946
Amortization	4,349	3,303			7,652	
Bank charges - Credit cards			1,378	3,347	4,725	
<b>TOTAL OPERATING EXPENSES</b>	<u>758,938</u>	<u>620,079</u>	<u>179,064</u>	<u>275,286</u>	<u>1,833,366</u>	<u>105,014</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(267,469)</u>	<u>141,399</u>	<u>34,491</u>	<u>(89,408)</u>	<u>(180,988)</u>	<u>44,532</u>
<b>NONOPERATING REVENUE (EXPENSE):</b>						
Interest income	25,605	52,894	56	25	78,580	31,982
Property tax levy	192,687	136,684			329,371	
Contributions	28,200				28,200	
Grant income	39,150				39,150	
Sale of asset	87	153			239	2,895
Bond interest expense	(47,433)	(196,195)			(243,628)	
Paying agent fees	(222)	(446)			(668)	
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<u>238,073</u>	<u>(6,911)</u>	<u>56</u>	<u>25</u>	<u>231,244</u>	<u>34,877</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<u>(29,396)</u>	<u>134,488</u>	<u>34,547</u>	<u>(89,383)</u>	<u>50,257</u>	<u>79,409</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER</u>	<u>NORTH PARK</u>	<u>MARINA</u>	<u>TOTALS</u>	
OTHER FINANCING SOURCES (USES):						
Operating transfers in	13,909	41,741			55,650	
Operating transfers out	(77,623)		(55,000)		(132,623)	-
TOTAL OTHER FINANCING SOURCES (USES)	(63,714)	41,741	(55,000)		(76,973)	-
CHANGE IN NET ASSETS	(93,110)	176,229	(20,453)	(89,383)	(26,717)	79,409
TOTAL NET ASSETS - BEGINNING	2,612,040	2,096,726	484,412	572,804		941,825
TOTAL NET ASSETS - ENDING	<u>\$ 2,518,930</u>	<u>\$ 2,272,954</u>	<u>\$ 463,959</u>	<u>\$ 483,421</u>		<u>\$ 1,021,234</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds					<u>6,844</u>	
Changes in net assets of business-type activities					<u>\$ (19,873)</u>	

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SEWER	WATER	NORTH PARK	MARINA	TOTALS	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers	\$ 476,088	\$ 724,356	\$ 213,555	\$ 185,878	\$ 1,599,876	
Receipts from interfund services		60,000			60,000	\$ 147,493
Payments to suppliers of goods and services	(108,600)	(350,320)	(86,034)	(155,354)	(680,309)	(37,951)
Payments to interfund services	(46,338)	(38,984)	(10,425)	(7,742)	(103,489)	(1,000)
Payments to employees	(174,441)	(40,456)	(47,236)	(27,378)	(289,509)	(9,488)
Payments for fringe benefits	(89,746)	(21,659)	(16,058)	(9,549)	(139,012)	(4,490)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>56,963</u>	<u>332,937</u>	<u>71,802</u>	<u>(14,145)</u>	<u>447,557</u>	<u>94,564</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating transfer in	13,909	41,741			55,650	
Operating transfer out	(77,623)		(55,000)		(132,623)	
Due to other funds	(715)	387	(8,352)	67,548	58,868	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(64,429)</u>	<u>42,128</u>	<u>(63,352)</u>	<u>67,548</u>	<u>(18,105)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition of fixed assets	(22,191)	(21,313)		(22,445)	(65,949)	(87,067)
Proceeds from sale of asset	87	153			239	2,895
Increase in construction in progress	(4,093,646)				(4,093,646)	
Bond principal payment	(42,564)	(153,339)			(196,103)	
Bond proceeds	4,022,423				4,022,423	
Interest and fees paid on bonds	(31,034)	(193,011)			(224,045)	
Property tax levy received	192,687	136,684			329,371	
Grant income	39,150				39,150	
Contributions from customers	28,200				28,200	
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>93,111</u>	<u>(231,026)</u>		<u>(22,445)</u>	<u>(160,360)</u>	<u>(84,172)</u>

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER</u>	<u>NORTH PARK</u>	<u>MARINA</u>	<u>TOTALS</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	26,379	52,858	55	25	79,317
NET CASH PROVIDED BY INVESTING ACTIVITIES	26,379	52,858	55	25	79,317
NET INCREASE IN CASH AND RESTRICTED CASH	112,024	196,897	8,505	30,983	348,410
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	618,883	1,286,208	5,945	10,913	1,921,949
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 730,907</u>	<u>\$ 1,483,105</u>	<u>\$ 14,451</u>	<u>\$ 41,896</u>	<u>\$ 2,270,359</u>
Cash Reconciliation:					
Cash	\$ 558,158	\$ 641,294	\$ 14,451	\$ 41,895	\$ 1,255,798
Restricted cash	172,749	841,810			1,014,559
Total	<u>\$ 730,907</u>	<u>\$ 1,483,104</u>	<u>\$ 14,451</u>	<u>\$ 41,895</u>	<u>\$ 2,270,357</u>

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER</u>	<u>NORTH PARK</u>	<u>MARINA</u>	<u>TOTALS</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (267,469)	\$ 141,399	\$ 34,491	\$ (89,408)	\$ (180,986)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	295,901	163,336	32,087	85,110	576,434
Amortization	4,349	3,303			7,652
(Increase) decrease in current assets:					
Accounts receivable	(15,379)	22,878	-		7,499
Due from other funds				(12,066)	(12,066)
Inventory					
Increase (decrease) in current liabilities:					
Accounts payable	45,113	27,320	2,536	1,518	76,487
Accrued payroll and related taxes	(983)	(12,065)	2,319	516	(10,213)
Compensated absences	(4,569)	(13,234)	369	185	(17,249)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ 56,963</u>	<u>\$ 332,937</u>	<u>\$ 71,802</u>	<u>\$ (14,145)</u>	<u>\$ 447,557</u>
					<u>\$ 94,564</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**STATEMENT OF NET ASSETS - FIDUCIARY FUND  
JUNE 30, 2008**

	<u>EXPENDABLE TRUST</u>
<b><u>ASSETS</u></b>	
Cash	\$ 83,392
Accrued interest receivable	4
<b>TOTAL ASSETS</b>	<u>\$ 83,396</u>
 <b><u>NET ASSETS</u></b>	
Reserved for sick leave	\$ 83,396
<b>TOTAL NET ASSETS</b>	<u>\$ 83,396</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**STATEMENT OF ACTIVITIES  
FIDUCIARY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u><b>EXPENDABLE TRUST</b></u>
<b>REVENUE:</b>	
Employer contribution	\$ 3,032
Interest income	<u>3,684</u>
<b>TOTAL REVENUE</b>	<u>6,716</u>
 <b>EXPENDITURES:</b>	
Sick leave payments	29,243
 <b>EXCESS OF REVENUE (UNDER) EXPENDITURES</b>	<u>(22,527)</u>
 <b>OTHER FINANCING SOURCES:</b>	
Operating transfers in	2,000
 <b>EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES</b>	<u>(20,527)</u>
 <b>NET ASSETS - JULY 1</b>	<u>103,923</u>
 <b>NET ASSETS - JUNE 30</b>	<u><u>\$ 83,396</u></u>

## **CITY OF HARBOR BEACH, MICHIGAN**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Harbor Beach operates a Council-Mayor form of government under provisions of a revised charter dated May 18, 1965, and provides the following services as authorized by its charter: public safety, (police, fire and inspection), highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the City are discussed below.

#### **REPORTING ENTITY:**

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

#### **Excluded from the reporting entity:**

**Harbor Beach Historical Society** - This potential component unit is excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

**Harbor Beach Community Fire Protection Association** - The Association is a separate entity formed by the City of Harbor Beach, Michigan and the Township of Sand Beach, both are located in Huron County, Michigan. The Association began operating February 1, 1985, under the terms of an interlocal agreement. The purpose of the Association is to provide fire protection to area property owners and residents. The governing body consists of two representatives appointed by each constituent unit. The Association is financed through assessments to the constituent units. The agreement states that the Association will operate on a calendar year and that its books will be audited annually by a certified public accounting firm chosen by the board. The Fire Department is excluded from the reporting entity because the City does not have the ability to exercise influence or control over its daily operations or approve budgets. The assessment to the City of Harbor Beach for the year ended June 30, 2008, amounted to \$54,423.

**Harbor Beach Community School District** - This potential component unit has a separate elected board and provides services to local residents of the Harbor Beach, Michigan area. The City does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

## **CITY OF HARBOR BEACH, MICHIGAN**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police, parks and recreation, and general administrative services are classified as governmental activities. The City's water, sewer, campground and marina are classified as business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

##### **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as expenditures in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**  
**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT**  
**PRESENTATION (CONTINUED):**

State revenue sharing, charges for services, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Parks and Recreation Fund** - The parks and recreation fund is a special revenue fund used to account for the revenues and expenditures of the City's recreation programs.

The City reports the following major proprietary funds:

The **Sewer Fund** accounts for the activities of the City's wastewater treatment operations.

The **Water Fund** accounts for the activities of the City's water distribution system.

The **North Park Fund** provides campground facilities for overnight and seasonal campers and recreational vehicles.

The **Marina Fund** provides sales of marine fuels, seasonal and overnight boat docking and boat launching.

Additionally, the City reports the following nonmajor fund types:

**Special Revenue Funds** - Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes and for the enforcement of special services and activities. The City accounts for the Major Street and Trunkline and Local Street in special revenue funds.

**Capital Project Fund** - The Capital Project Fund of the City accounts for the cost of constructing a variety of public works projects and related debt service. Financing is provided by a general obligation bond.

# **CITY OF HARBOR BEACH, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)** **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT** **PRESENTATION: (CONTINUED)**

**Internal Service Funds** - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments on a cost-reimbursement basis. The Equipment Fund rents equipment to other City funds and departments at an hourly rate determined by the State of Michigan.

#### **Fiduciary Fund Types:**

**Trust Funds** - Trust funds are used to account for assets held by the City in a trustee capacity. The City is in a trustee capacity in relation to the Sick Leave Fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Utility enterprise funds and the City's Internal Service fund are charges to customers of the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **BUDGETS AND BUDGETARY ACCOUNTING:**

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

A. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds as well as for all Enterprise and Internal Service funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

B. The City Council approves, by ordinance, the total budget appropriations only. The City Finance Officer is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (Legislative, Election, Financial and Administration, General, etc.).

C. Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.

D. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

## **CITY OF HARBOR BEACH, MICHIGAN**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED):**

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Enterprise Funds, and the Capital Project Funds. In the General Fund, budgets are adopted at the functional level and budgetary control is exercised at the department level. For Special Revenue Funds, budgets are adopted and control is exercised at the level of total expenditures for each individual fund. For Capital Project Funds, budgets are adopted and control is exercised at the project level.

##### **CASH AND CASH EQUIVALENTS:**

The City considers all certificates of deposit, money market accounts and highly liquid short term investments with maturities of three months or less to be cash equivalents.

##### **RECEIVABLES AND PAYABLES:**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Other receivables at June 30, 2008 consist of property taxes, state road taxes, and billings for user charged services, including trash collections and utility services. Taxes, trash and utility charges are deemed collectible in full.

##### **PROPERTY TAXES:**

Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following December 1 and are payable without penalty through February 14. The City bills and collects its own property taxes and also taxes for the county and school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the current Tax Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. Delinquent taxes are expected to be fully collectible and therefore no allowance for uncollectible taxes is provided.

##### **INVENTORY:**

Inventory in the Marina Fund, a Proprietary Fund, is valued at the lower of cost or market on the first-in first-out method.

##### **CAPITAL ASSETS:**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

# CITY OF HARBOR BEACH, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### CAPITAL ASSETS: (CONTINUED)

Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15 to 50
Buildings	25 to 50
Office equipment	5 to 15
Machinery and equipment	5 to 20
Vehicles	5 to 8
Improvements other than buildings	20

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental fund Statement of Net Assets. Depreciation expense for the year ended June 30, 2008, was \$440,870. Capital asset acquisitions in the governmental funds totaled \$176,183 and disposals totaled \$46,312 for the year ended June 30, 2008. A summary of Governmental Fund capital assets at June 30, 2008, follows:

	<u>2008</u>	<u>2007</u>
Land	\$2,727,922	\$2,727,922
Land improvements	984,705	965,704
Buildings	605,283	605,283
Office furnishings	11,870	11,870
Equipment	279,188	272,775
Internal Service Fund assets	1,087,095	1,046,340
Storm sewer	890,278	890,278
Roads	5,094,072	5,079,658
Other infrastructure	<u>1,789,490</u>	<u>1,740,202</u>
Total capital assets	13,469,903	13,340,032
Less accumulated depreciation	(6,219,132)	(5,824,574)
<b>NET GOVERNMENTAL FUND CAPITAL ASSETS</b>	<u><b>\$7,250,770</b></u>	<u><b>\$7,515,458</b></u>

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund balance sheets. Depreciation expense for the year ended June 30, 2008, was \$576,434. Capital asset acquisitions in the business-type funds totaled \$87,353, and there were no asset disposals for the year ended June 30, 2008. A summary of Business-Type Fund capital assets at June 30, 2008, follows:

# CITY OF HARBOR BEACH, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### CAPITAL ASSETS: (CONTINUED)

	<u>2008</u>	<u>2007</u>
Buildings	\$ 4,200,724	\$ 4,200,724
Water system	4,847,347	4,847,347
Sewer system	2,254,364	2,254,364
Harbor docks	799,646	799,646
Harbor and parking lot	1,896,483	1,857,224
Equipment	7,115,618	7,067,524
North Park sites and improvements	<u>366,788</u>	<u>366,788</u>
Total capital assets	21,480,969	21,393,616
Less accumulated depreciation	(11,885,657)	(11,309,223)
Construction in progress	<u>4,139,071</u>	<u>66,829</u>
<b>NET BUSINESS-TYPE FUND CAPITAL ASSETS</b>	<b><u>\$13,734,383</u></b>	<b><u>\$10,151,222</u></b>

Depreciation expense was charged to functions/programs of the City as follows:

#### Governmental activities:

General government	\$ 18,845
Public safety	18,724
Highways and public improvement	300,280
Sanitation	2,004
Parks and recreation	49,071
Internal service fund	<u>51,946</u>
Total depreciation expense – governmental activities	<u>\$440,870</u>

#### Business-type activities:

Sewer	\$295,901
Water	163,336
North Park	32,087
Marina	<u>85,110</u>
Total depreciation expense – business-type activities	<u>\$576,434</u>

#### LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

# **CITY OF HARBOR BEACH, MICHIGAN**

## **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **USE OF ESTIMATES:**

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### **NOTE 2 - BUDGET COMPLIANCE:**

During the year ended June 30, 2008, the City incurred expenditures in the following fund which were in excess of the amount appropriated:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General Fund:			
Debt service	\$44,000	\$62,844	\$(18,844)

The Parks and Recreation Fund did not have a balanced budget for the year ended June 30, 2008. It was prepared at a level that created a projected fund deficit. The actual results did not result in a deficit, however the original and final budgets projected a fund deficit.

#### **NOTE 3 - CASH AND DEPOSITS:**

As of June 30, 2008, the City has a carrying amount of \$4,705,636 of deposits (cash and deposits) in local banks and the bank balance was \$5,014,261. Of the bank balance \$500,000 was covered by the Federal Deposit Insurance Corporation and \$4,514,261 remained uninsured and uncollateralized.

Michigan Compiled Laws Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The City's deposits are in accordance with statutory authority. The City's investment policy does not address interest rate risk or concentration of credit risk.

# CITY OF HARBOR BEACH, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

### **NOTE 4 – RESTRICTED ASSETS:**

The amounts reported as restricted assets are held in separate accounts by the treasurer on behalf of the City. These amounts are restricted for debt retirement and capital asset replacement for the City's utility funds. The restricted assets as of June 30, 2008 are as follows:

<u>Fund</u>	<u>Amount</u>
Water and sewer construction	\$ 178,246
Sewer replacement	420,370
Sewer bond retirement	37,748
Water bond retirement	419,185
Water equipment replacement	<u>422,625</u>
Total restricted assets	<u>\$1,478,174</u>

Net assets have been restricted for the above restricted assets.

### **NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES:**

The balances of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$221,222	General	\$ 4,808
General-Notes Receivable	108,678	Parks and Recreation	29,986
Parks and Recreation	500	Major Street and Trunkline	5,460
Internal Service	15,898	Local Street	3,578
		Sewer	244
		Water	1,808
		North Park	5,500
		Marina	186,236
		Marina – Note Payable	<u>108,678</u>
<b>Totals</b>	<u><b>\$346,298</b></u>		<u><b>\$346,298</b></u>

### **NOTE 6 – CONSTRUCTION IN PROGRESS:**

Included in construction in progress for the Sewer Fund is the amount of \$4,139,071 which represents engineering fees and construction costs through June 30, 2008 related to the sanitary sewer retention basin project. The cost of this project is estimated to total approximately \$4.6 million and be completed by December 2008.

### **NOTE 7 – COMPENSATED ABSENCES:**

The City allows one day per month sick leave; not to exceed 12 days per year, with unlimited maximum accumulation. All unused sick leave will be paid at one-half the current hourly rate of pay, up to a maximum payment of \$15,000, upon retirement with the City, provided that and conditional to the employee having ten years or more employment with the City. Upon death of the employee, all unused sick leave time will be paid to the employee's beneficiary in accordance with the above mentioned formula.

The City has entered into an agreement with union employees whereby the City must deposit into a special group savings account in the City's name, the total accrued unused sick leave on December 31 of each year at one half the employees' current hourly rate. Upon eligible retirement, an employee may withdraw his credited balance including interest. Should an employee exhaust his yearly allotted sick leave, he then may draw one half days wages from his banked sick leave.

**CITY OF HARBOR BEACH, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 7 -- COMPENSATED ABSENCES: (CONTINUED)**

The City has entered into an agreement with union employees whereby the City must deposit into a special group savings account in the City's name, the total accrued unused sick leave on December 31 of each year at one half the employees' current hourly rate. Upon eligible retirement, an employee may withdraw his credited balance including interest. Should an employee exhaust his yearly allotted sick leave, he then may draw one half days wages from his banked sick leave. The City will match the one half day's wages at the employee's current rate. The employee may continue to draw until his bank is exhausted or the \$15,000 maximum is reached, whichever comes first. The liability for accumulated unpaid sick leave recorded in the governmental and business-type funds at June 30, 2008, is \$66,226.

The City's policy is to permit employees to accumulate limited amounts of earned, but unused, vacation benefits, which are vested in the employees. A long-term liability of \$50,166 of accrued vacation benefits at June 30, 2008, has been recorded in the governmental and business-type funds, representing the City's commitment to fund such costs from future operations.

**NOTE 8 - LONG-TERM DEBT:**

In 1996, the City approved a resolution that authorized a County Drain Assessment in the amount of \$586,350. The annual principal payments total \$29,317 plus interest at 6%. The assessment matures in 2019. The City has also issued a 2003 Installment Purchase Agreement for the purchase of land. The agreement totaled \$525,000 and will mature on April 1, 2019. The drain assessment and the purchase agreement are recorded in the Governmental Activities. The long-term debt, principal and interest, maturing in the next five years is as follows:

	<u>JUNE 30, 2007</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>JUNE 30, 2008</u>	<u>DUE WITHIN ONE YEAR</u>
<b>Governmental activities:</b>					
County drain assessment	\$ 381,127		\$ 29,317	\$ 351,810	\$ 29,317
Installment purchase Agreement	450,000		30,000	420,000	30,000
Compensated absences	97,910		3,423	94,487	
<b>Total governmental activities</b>	<u>\$929,037</u>		<u>\$ 62,740</u>	<u>\$ 866,297</u>	<u>\$ 59,317</u>

	<u>JUNE 30,</u>	<u>INSTALLMENT PURCHASE AGREEMENT</u>	<u>COUNTY DRAIN ASSESSMENT</u>
2009		\$ 42,919	\$51,833
2010		41,963	49,957
2011		41,005	48,081
2012		44,969	46,204
2013		43,852	44,328
2014-2018		235,201	193,496
2019-2020		<u>50,798</u>	<u>64,263</u>
Totals		500,707	498,164
Less interest		<u>80,707</u>	<u>146,353</u>
Outstanding principal		<u>\$420,000</u>	<u>\$351,810</u>

# CITY OF HARBOR BEACH, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008

### NOTE 8 - LONG-TERM DEBT: (CONTINUED)

The City of Harbor Beach has issued 1993 Water Supply and Distribution System Revenue Bonds to aid in the construction of a water plant. The bond issue totaled \$4.345 million dollars. Twenty-two and twenty seven-hundredths percent (22.27%) of the issue is guaranteed through payments, by contract with an industrial water user. A surety bond has been issued by an insurance company securing the industrial water user's share of this project. The issue matures on November 1, 2032. The City has also issued 2000 General Obligation Public Improvement Bonds to aid in the replacement of the City's water and sewer lines. The bond issue totaled \$2.75 million dollars. The bond issue will mature on May 1, 2020. The City has also issued 2004 Capital Improvement Bonds. The bond issue totaled \$950,000 and will mature on May 1, 2024. During the year ended June 30, 2007, the City issued 2006 General Obligation Refunding Bonds in the amount of \$2,250,000 to advance refund the 2000 Public Improvement Bonds. The 2006 Refunding Bonds mature on May 1, 2020. On June 21, 2007, the City issued 2007 General Obligation Limited Tax Bonds to aid in the construction of a sewer retention basin for the City's wastewater system. The bond issue totaled \$4.555 million dollars. The bond issue will mature on April 1, 2028. Bonds and other long-term debt currently outstanding are as follows:

	<u>JUNE 30,</u> <u>2007</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>JUNE 30,</u> <u>2008</u>	<u>DUE WITHIN</u> <u>ONE YEAR</u>
<b>Business-type activities:</b>					
Bonds payable:					
Capital improvement	\$ 845,000		\$ 35,000	\$ 810,000	\$ 40,000
Water supply and distribution	3,119,000		70,000	3,049,000	74,000
Public improvement	290,000		85,000	205,000	95,000
Refunding bonds	2,245,000		15,000	2,230,000	20,000
Sanitary sewer retention basin		\$4,022,423		4,022,423	195,000
Compensated absences	39,155		17,250	21,905	
<b>Total business-type activities</b>	<u>\$6,538,155</u>	<u>\$ 4,022,423</u>	<u>\$222,250</u>	<u>\$10,338,328</u>	<u>\$424,000</u>

The long-term debt, excluding compensated absences, principal and interest, maturing in the next five years is as follows:

<u>JUNE 30,</u>	<u>CAPITAL</u> <u>IMPROVE-</u> <u>MENT</u>	<u>WATER</u> <u>SUPPLY AND</u> <u>DISTRIBUTION</u>	<u>PUBLIC</u> <u>IMPROVE-</u> <u>MENT</u>	<u>REFUNDING</u> <u>BONDS</u>	<u>SANITARY</u> <u>SEWER</u> <u>RETENTION</u>	<u>TOTAL</u> <u>LONG-</u> <u>TERM DEBT</u>
2009	\$ 78,080	\$ 232,130	\$ 105,506	\$ 109,400	\$ 258,467	\$ 783,583
2010	76,520	231,167	115,638	108,650	262,196	794,171
2011	74,920	231,019		232,900	258,946	797,785
2012	73,260	231,635		242,100	260,696	807,691
2013	76,540	231,015		245,700	257,364	810,619
2014-2018	366,675	1,153,878		1,387,500	1,300,309	4,208,362
2019-2023	359,290	1,150,112		626,200	1,298,903	3,434,505
2024-2028	73,605	1,144,518			771,672	1,989,795
2029-2031		594,004				594,004
Totals	1,178,890	5,199,478	221,144	2,952,450	4,668,553	14,220,515
Less interest	368,890	2,150,478	16,144	722,450	646,130	3,904,092
Outstanding principal	<u>\$ 810,000</u>	<u>\$3,049,000</u>	<u>\$205,000</u>	<u>\$2,230,000</u>	<u>\$4,022,423</u>	<u>\$10,316,423</u>

(Continued)

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 8 - LONG-TERM DEBT: (CONTINUED)**

Total interest costs incurred and charged to expense for the governmental activities and the business-type activities for the year ended June 30, 2008 amounted to \$47,870 and \$243,628, respectively. In addition, \$33,175 of interest was capitalized as part of the construction costs of the sewer retention basin being built during the fiscal year.

On December 21, 2006, the City issued \$2,250,000 in general obligation bonds with an average interest rate of 3.94 percent to advance refund \$2,070,000 of outstanding bonds with an average interest rate of 5.32 percent. The net amount paid to the escrow was \$2,174,867, which was used to pay off \$2,070,000 of the old general obligation bonds leaving an outstanding balance of \$365,000. As a result, \$2,070,000 of the old bonds are considered to be defeased and the liability for those bonds has been removed from these financial statements. The cash flow requirements on the refunded bonds prior to the advance refunding were \$3,654,820 from 2007 through 2020. The cash flow requirements on the 2006 refunding bonds are \$3,094,967 from 2007 through 2020. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$506,713. The deferred loss on the advance refunding was \$104,867. As of June 30, 2008, \$2,070,000 of the refunded bonds is still outstanding and will be paid on May 1, 2010.

**NOTE 9 – PROPERTY TAXES:**

Property taxes are levied based on the taxable value of property located in the City. Assessed value is established annually and equalized by the State at an estimated 50% of current market value. A comparison of the assessed and taxable property values for the 2007 tax levy is as follows:

	<b><u>ASSESSED VALUE</u></b>	<b><u>TAXABLE VALUE</u></b>
Real property-Regular roll	\$51,455,900	\$45,150,405
Personal property-Regular roll	<u>9,777,400</u>	<u>9,777,400</u>
<b>TOTAL</b>	<b><u>\$ 61,233,300</u></b>	<b><u>\$54,927,805</u></b>

The City is permitted, by charter, to levy up to \$20 (20 mills) per \$1,000 of taxable value for general governmental services including debt service. For the year ended June 30, 2008, the City levied 14.91 mills for general governmental services and 4.67 mills for debt service. Total millage levied was 19.58.

**NOTE 10 – INTERFUND TRANSFERS:**

Interfund transfers for the year ended June 30, 2008 were as follows:

<b><u>Transfer In</u></b>	<b><u>Transfer Out</u></b>	<b><u>Purpose</u></b>	<b><u>Amount</u></b>
General Fund	Capital projects	Debt retirement	\$ 18,968
Parks and recreation	General Fund	Operations	10,000
Parks and recreation	North Park Fund	Operations	55,000
Capital Project	Sewer Fund	Construction costs	77,623
Sick Leave Fund	General Fund	Set aside funds for sick leave	2,000
Sewer Fund	Capital Project	Debt retirement	13,909
Water Fund	Capital Project	Debt retirement	<u>41,741</u>
			<b><u>\$219,241</u></b>

## **CITY OF HARBOR BEACH, MICHIGAN**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2008**

#### **NOTE 11 – PENSION PLAN:**

1. **Plan Description** - The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

2. **Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

3. **Annual Pension Cost** – For the year ended June 30, 2008, the City's annual pension cost of \$35,086 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 2% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

#### **NOTE 12 – UNEMPLOYMENT BENEFITS:**

The City has elected to be treated as a reimbursing employer for unemployment purposes. Any unemployment benefits paid to City employees by the Michigan unemployment fund must be reimbursed by the City on a dollar for dollar basis. The contingent liability for unemployment benefits is not recognized in the accompanying financial statements. The expense is recognized at the time the City becomes liable to the State of Michigan for unemployment benefits paid.

#### **NOTE 13 – RISK MANAGEMENT:**

Property, liability and worker's compensation insurance and health and disability benefits are contracted by the City with commercial insurance providers. For the year ended June 30, 2008, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**REQUIRED SUPPLEMENTAL INFORMATION**

## CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND**  
**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
<b>Taxes:</b>				
Current property taxes	\$ 1,045,000	\$ 1,052,000	\$ 1,050,198	\$ (1,802)
Delinquent taxes			819	819
Trailer park taxes	<u>500</u>	<u>300</u>	<u>307</u>	<u>7</u>
<b>Total taxes</b>	<u>1,045,500</u>	<u>1,052,300</u>	<u>1,051,324</u>	<u>(976)</u>
<b>Licenses and permits:</b>				
Building permits	<u>3,000</u>	<u>700</u>	<u>700</u>	<u>-</u>
<b>Intergovernmental:</b>				
Federal grants		1,000	1,120	120
State revenue sharing:				
Sales tax - Constitutional	95,000	125,000	125,607	607
Sales tax - Statutory	75,000	82,000	82,839	839
Liquor license	<u>500</u>	<u>2,000</u>	<u>1,816</u>	<u>(184)</u>
<b>Total intergovernmental</b>	<u>170,500</u>	<u>210,000</u>	<u>211,382</u>	<u>1,382</u>
<b>Charges for services:</b>				
Trash pickup collections	90,000	82,000	82,750	750
Charges for fees and services	<u>110,000</u>	<u>100,000</u>	<u>100,259</u>	<u>259</u>
<b>Total charges for services</b>	<u>200,000</u>	<u>182,000</u>	<u>183,009</u>	<u>1,009</u>
<b>Fines and forfeitures</b>	<u>10,000</u>	<u>6,000</u>	<u>6,113</u>	<u>113</u>
<b>Miscellaneous:</b>				
Interest income	50,000		16,404	16,404
Sale of property	25,000	25,000		(25,000)
Contributions	6,000	6,000	7,443	1,443
Rents and leases	<u>15,000</u>	<u>15,000</u>	<u>3,900</u>	<u>(11,100)</u>
<b>Total miscellaneous</b>	<u>96,000</u>	<u>46,000</u>	<u>27,747</u>	<u>(18,253)</u>
<b>TOTAL REVENUE</b>	<u>1,525,000</u>	<u>1,497,000</u>	<u>1,480,274</u>	<u>(16,726)</u>
<b>EXPENDITURES:</b>				
<b>Legislative:</b>				
Council and mayor salaries	7,000	7,000	6,940	60
Fringe benefits	500	600	569	31
Conferences and workshops	3,000	3,000	2,939	61
Supplies	500	200	136	64
Community promotion	<u>1,000</u>	<u>1,200</u>	<u>1,173</u>	<u>27</u>
<b>Total legislative</b>	<u>12,000</u>	<u>12,000</u>	<u>11,757</u>	<u>243</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**GENERAL FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Elections:</b>				
Salaries	1,000	1,100	1,063	37
Fringe benefits	200	100	69	31
Office supplies	200	100	115	(15)
Postage	200	100	100	
Printing and publishing	200			
Contracted services	200			
<b>Total elections</b>	<u>2,000</u>	<u>1,400</u>	<u>1,347</u>	<u>53</u>
<b>Financial and administration:</b>				
Salaries	170,000	176,000	175,600	400
Fringe benefits	60,000	84,000	84,644	(644)
Postage	1,000	1,000	849	151
Professional services	5,000	4,500	4,362	138
Contracted services	2,000	1,200	1,173	27
Office supplies	1,500	1,500	1,410	90
Telephone	2,500	3,000	2,986	14
Transportation	1,000	2,100	2,097	3
Conferences and workshops	3,000	2,600	2,595	5
Community promotion	1,000	200	240	(40)
Insurance	1,000	900	697	203
Assessor	16,000	19,000	18,754	246
Board of review	2,000	800	768	32
<b>Total financial and administration</b>	<u>266,000</u>	<u>296,800</u>	<u>296,174</u>	<u>626</u>
<b>General:</b>				
Salaries	128,000	146,000	145,931	69
Fringe benefits	80,000	118,000	117,726	274
Supplies	10,000	10,600	10,601	(1)
Postage	1,000	700	653	47
Clothing	1,000	800	760	40
Professional services	16,000	16,800	15,067	1,733
Contracted services	75,000	66,300	66,251	49
Engineering fees	1,000			
Transportation	1,000			
Community promotion	3,000	1,300	1,310	(10)
Printing & publishing	2,000	2,100	2,044	56
Insurance	40,000	27,000	26,897	103
Utilities	20,000	14,600	14,603	(3)
Repairs and maintenance	10,000	5,000	4,974	26
Equipment rental	45,000	45,300	45,276	24
Dues and subscriptions	1,000	2,500	2,535	(35)
Building lease		1,600	1,575	25
Sidewalk maintenance	9,000			
Hydrant rental	60,000	60,000	60,000	
Education	1,000	700	642	58
<b>Total general</b>	<u>504,000</u>	<u>519,300</u>	<u>516,843</u>	<u>2,457</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**GENERAL FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Police department:</b>				
Salaries	225,000	212,000	211,941	59
Fringe benefits	60,000	77,000	77,078	(78)
Postage	200	100	66	34
Supplies	2,000	4,000	3,678	322
Dues and subscriptions	1,000	100	100	
Uniforms	1,000	400	410	(10)
Cleaning allowance	400	400	439	(39)
Professional services	8,000	6,200	6,170	30
Telephone	4,000	3,700	3,701	(1)
Police car maintenance	13,500	14,300	14,280	20
Insurance	14,000	13,600	13,627	(27)
Education and training	1,900			
<b>Total police department</b>	<u>331,000</u>	<u>331,800</u>	<u>331,491</u>	<u>309</u>
<b>Planning:</b>				
Salaries	15,000	19,000	18,750	250
Fringe benefits	2,000	1,500	1,489	11
Professional services	1,000			
Printing and publishing	500	100	25	75
Telephone	500			
Supplies and tools	1,000	1,100	1,120	(20)
Postage			5	(5)
Conferences	500	200	200	
<b>Total planning</b>	<u>20,500</u>	<u>21,900</u>	<u>21,590</u>	<u>310</u>
<b>Street lighting</b>	<u>68,000</u>	<u>58,000</u>	<u>57,984</u>	<u>16</u>
<b>Sanitation:</b>				
Contracted services	<u>98,000</u>	<u>92,000</u>	<u>91,956</u>	<u>44</u>
<b>Capital Outlay:</b>				
Land improvements	66,000	42,000	41,647	353
Financial and administration	37,000	1,000	774	226
General	95,000	3,000	2,830	170
Police	5,000	1,800	1,821	(21)
Planning	500			
<b>Total Capital Outlay</b>	<u>203,500</u>	<u>47,800</u>	<u>47,072</u>	<u>728</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**GENERAL FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Debt Service:</b>				
Principal	45,000	30,000	38,897	(8,897)
Interest expense	15,000	14,000	23,947	(9,947)
<b>Total Debt Service</b>	<u>60,000</u>	<u>44,000</u>	<u>62,844</u>	<u>(18,844)</u>
<b>TOTAL EXPENDITURES</b>	<u>1,565,000</u>	<u>1,425,000</u>	<u>1,439,060</u>	<u>(14,060)</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(40,000)</u>	<u>72,000</u>	<u>41,214</u>	<u>(30,786)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	50,000		18,968	18,968
Operating transfers out	(10,000)	(12,000)	(12,000)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>40,000</u>	<u>(12,000)</u>	<u>6,968</u>	<u>18,968</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>-</u>	<u>60,000</u>	<u>48,182</u>	<u>(11,818)</u>
<b>FUND BALANCE - JULY 1</b>	835,046	835,046	835,046	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 835,046</u>	<u>\$ 895,046</u>	<u>\$ 883,228</u>	<u>\$ (11,818)</u>

## CITY OF HARBOR BEACH, MICHIGAN

**PARKS AND RECREATION FUND**  
**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
Rentals	\$ 3,000	\$ 3,150	\$ 3,200	\$ 50
Recreation fees	7,000	5,600	5,664	64
Trip and entrance fees	9,000	8,700	8,818	118
Storage fees	2,500	2,500	2,500	-
Interest income	500	800	830	30
Miscellaneous income		4,600	4,645	45
Grant income		1,850	1,883	33
Contributions	22,000	52,200	52,375	175
<b>TOTAL REVENUE</b>	<u>44,000</u>	<u>79,400</u>	<u>79,915</u>	<u>515</u>
<b>EXPENDITURES:</b>				
Salaries	27,800	30,800	30,737	63
Fringe benefits	7,500	11,000	10,795	205
Office expense		200	165	35
Supplies and tools	16,300	28,650	29,394	(744)
Professional services		2,000	1,999	1
Contracted services	100	1,400	1,358	42
Transportation	900	200	144	56
Community promotion	500			-
Sanctioning fees	1,500	1,500	1,418	82
Printing & publishing	1,500	1,300	1,290	10
Postage	400	250	253	(3)
Insurance	2,500	2,100	2,088	12
Utilities	12,300	14,400	14,170	230
Repairs and maintenance	14,500	19,300	19,199	101
Land improvements			2,664	(2,664)
Equipment rental	2,400	600	562	38
Dues and subscriptions		300	250	50
State sales tax		300	311	(11)
Depreciation	90,000	43,900		43,900
Event charges	1,000	500	470	30
Entertainment	4,000	7,500	7,467	33
Special event expenses	13,900	17,500	17,484	16
Umpire fees	1,000	1,000		1,000
Capital outlay	900			-
<b>TOTAL EXPENDITURES</b>	<u>199,000</u>	<u>184,700</u>	<u>142,219</u>	<u>42,481</u>
<b>EXCESS OF REVENUE (UNDER)</b>				
<b>EXPENDITURES</b>	<u>(155,000)</u>	<u>(105,300)</u>	<u>(62,304)</u>	<u>42,996</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of fixed asset		800	813	13
Operating transfers in	65,000	65,000	65,000	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>65,000</u>	<u>65,800</u>	<u>65,813</u>	<u>13</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES</b>				
<b>OVER (UNDER) EXPENDITURES</b>	<u>(90,000)</u>	<u>(39,500)</u>	<u>3,509</u>	<u>43,009</u>
<b>FUND BALANCE - JULY 1</b>	<u>9,573</u>	<u>9,573</u>	<u>9,573</u>	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ (80,427)</u>	<u>\$ (29,927)</u>	<u>\$ 13,082</u>	<u>\$ 43,009</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF FUNDING PROGRESS - EMPLOYEE RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UALL) (b) - (a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a)/c)</b>
12/31/2007	\$ 5,046,029	\$ 5,068,510	\$ 22,481	99.6%	\$ 798,368	2.8%
12/31/2006	4,697,755	4,647,940	(49,815)	101.1%	923,848	-5.4%
12/31/2005	4,336,715	4,345,077	8,362	99.8%	912,796	0.9%
12/31/2004	4,042,777	3,986,975	(55,802)	101.4%	889,480	-6.3%
12/31/2003	3,753,989	3,469,849	(284,140)	108.2%	850,616	-33.4%

## SUPPLEMENTAL INFORMATION

CITY OF HARBOR BEACH, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008

	<u>SPECIAL REVENUE</u>			<u>TOTALS</u>	
	<u>MAJOR STREET &amp; TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>CAPITAL PROJECTS</u>	<u>JUNE 30, 2008</u>	<u>2007</u>
<u>ASSETS</u>					
Cash	\$ 309,116	\$ 403,560	\$ 178,245	\$ 890,921	\$ 857,189
Accounts receivable					270
Accrued interest receivable	551	550		1,101	
Due from other governments	21,907	5,263		27,170	24,445
<b>TOTAL ASSETS</b>	<u>\$ 331,574</u>	<u>\$ 409,373</u>	<u>\$ 178,245</u>	<u>\$ 919,192</u>	<u>\$ 881,904</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities:</u>					
Accounts payable	\$ 493	\$ 669		\$ 1,162	\$ 676
Accrued payroll and related taxes	1,303	1,936		3,239	2,124
Due to other funds	5,460	3,578		9,038	
<b>Total liabilities</b>	<u>7,256</u>	<u>6,183</u>		<u>13,439</u>	<u>2,800</u>
<b>Fund balance</b>	324,318	403,190	\$ 178,245	905,753	879,104
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 331,574</u>	<u>\$ 409,373</u>	<u>\$ 178,245</u>	<u>\$ 919,192</u>	<u>\$ 881,904</u>

CITY OF HARBOR BEACH, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>SPECIAL REVENUE</u>		<u>CAPITAL</u>	<u>TOTALS</u>	
	<u>MAJOR STREET &amp; TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>PROJECTS</u>	<u>2008</u>	<u>JUNE 30, 2007</u>
<b>REVENUE:</b>					
Intergovernmental	\$ 122,105	\$ 105,237		\$ 227,342	\$ 223,674
Charges for services	768	1,008		1,776	1,459
Miscellaneous	11,750	14,136	\$ 4,755	30,641	28,222
<b>TOTAL REVENUE</b>	<u>134,623</u>	<u>120,381</u>	<u>4,755</u>	<u>259,759</u>	<u>253,355</u>
<b>EXPENDITURES:</b>					
Streets	102,785	126,730		229,515	211,527
Administrative	3,800	2,800		6,600	6,900
<b>TOTAL EXPENDITURES</b>	<u>106,585</u>	<u>129,530</u>		<u>236,115</u>	<u>218,427</u>
<b>EXCESS OF REVENUE OVER (UNDER)</b>					
<b>EXPENDITURES</b>	<u>28,038</u>	<u>(9,149)</u>	<u>4,755</u>	<u>23,644</u>	<u>34,928</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in			77,623	77,623	142,946
Operating transfers (out)			(74,618)	(74,618)	(75,878)
<b>TOTAL OTHER FINANCING SOURCES</b>			<u>3,005</u>	<u>3,005</u>	<u>67,068</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>28,038</u>	<u>(9,149)</u>	<u>7,760</u>	<u>26,649</u>	<u>101,996</u>
<b>FUND BALANCE - JULY 1</b>	296,280	412,339	170,485	879,104	777,108
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 324,318</u>	<u>\$ 403,190</u>	<u>\$ 178,245</u>	<u>\$ 905,753</u>	<u>\$ 879,104</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**MAJOR STREET AND TRUNKLINE FUND**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -**

**BUDGET AND ACTUAL**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
<b>Intergovernmental:</b>				
Gas and weight tax	\$ 80,000	\$ 95,000	\$ 95,045	\$ 45
State trunkline maintenance	<u>26,000</u>	<u>24,000</u>	<u>27,060</u>	<u>3,060</u>
<b>Total intergovernmental</b>	<u>106,000</u>	<u>119,000</u>	<u>122,105</u>	<u>3,105</u>
<b>Miscellaneous:</b>				
Charges for services		800	768	(32)
Interest	<u>10,000</u>	<u>11,200</u>	<u>11,750</u>	<u>550</u>
<b>TOTAL REVENUE</b>	<u>116,000</u>	<u>131,000</u>	<u>134,623</u>	<u>3,623</u>
<b>EXPENDITURES:</b>				
<b>Construction:</b>				
Salaries	4,000	-	-	-
Fringe benefits	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total construction</b>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Routine maintenance:</b>				
Labor	10,000	8,200	8,178	22
Fringe benefits	5,000	4,100	4,074	26
Materials	3,000	2,900	2,686	214
Repairs and maintenance	15,000	7,800	7,775	25
Equipment rental	<u>9,000</u>	<u>9,000</u>	<u>8,880</u>	<u>120</u>
<b>Total routine maintenance</b>	<u>42,000</u>	<u>32,000</u>	<u>31,594</u>	<u>406</u>
<b>Traffic services:</b>				
Labor	1,000	200	146	54
Fringe benefits	100	100	67	33
Materials	400			
Equipment rental	<u>500</u>	<u>100</u>	<u>99</u>	<u>1</u>
<b>Total traffic services</b>	<u>2,000</u>	<u>400</u>	<u>311</u>	<u>88</u>
<b>Winter maintenance:</b>				
Labor	12,000	11,400	11,334	66
Fringe benefits	5,000	4,500	4,408	92
Materials	3,000	600	600	
Equipment rental	<u>12,000</u>	<u>16,500</u>	<u>16,308</u>	<u>192</u>
<b>Total winter maintenance</b>	<u>32,000</u>	<u>33,000</u>	<u>32,650</u>	<u>350</u>
<b>Administrative:</b>				
Administrative cost	3,000	3,000	3,000	
Professional services	<u>2,000</u>	<u>800</u>	<u>800</u>	<u>-</u>
<b>Total administrative</b>	<u>5,000</u>	<u>3,800</u>	<u>3,800</u>	<u>-</u>

**CITY OF HARBOR BEACH, MICHIGAN**  
**MAJOR STREET AND TRUNKLINE FUND**  
**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Trunkline Maintenance:</b>				
Labor	9,000	7,600	7,584	16
Fringe benefits	5,000	4,100	4,063	37
Materials	5,000	3,500	3,463	37
Contracted services	1,000	-	-	
Equipment rental	<u>10,000</u>	<u>12,800</u>	<u>12,760</u>	<u>40</u>
<b>Total trunkline maintenance</b>	<b>30,000</b>	<b>28,000</b>	<b>27,869</b>	<b>131</b>
<b>Sidewalks:</b>				
Labor		2,400	2,402	(2)
Fringe benefits		1,100	1,089	11
Materials		300	260	40
Equipment rental		1,500	2,928	(1,428)
Sidewalk cleaning/snow removal		1,300		1,300
Land improvements		<u>3,800</u>	<u>3,682</u>	<u>118</u>
<b>Total sidewalks</b>		<b>10,400</b>	<b>10,361</b>	<b>39</b>
<b>TOTAL EXPENDITURES</b>	<b>116,000</b>	<b>107,600</b>	<b>106,585</b>	<b>1,014</b>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<b>-</b>	<b>23,400</b>	<b>28,038</b>	<b>4,637</b>
<b>FUND BALANCE - JULY 1</b>	<b>296,280</b>	<b>296,280</b>	<b>296,280</b>	
<b>FUND BALANCE - JUNE 30</b>	<b><u>\$ 296,280</u></b>	<b><u>\$ 319,680</u></b>	<b><u>\$ 324,318</u></b>	<b><u>\$ 4,637</u></b>

**CITY OF HARBOR BEACH, MICHIGAN**

**LOCAL STREET FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
<b>Intergovernmental:</b>				
Gas and weight tax	\$ 30,000	\$ 34,900	\$ 34,896	\$ (4)
County road millage	<u>70,000</u>	<u>70,000</u>	<u>70,341</u>	<u>341</u>
<b>Total intergovernmental</b>	<u>100,000</u>	<u>104,900</u>	<u>105,237</u>	<u>337</u>
<b>Miscellaneous:</b>				
Interest	15,000	13,500	14,136	636
Charges for services	<u>5,000</u>	<u>1,000</u>	<u>1,008</u>	<u>8</u>
<b>Total miscellaneous</b>	<u>20,000</u>	<u>14,500</u>	<u>15,144</u>	<u>644</u>
<b>TOTAL REVENUE</b>	<u>120,000</u>	<u>119,400</u>	<u>120,381</u>	<u>981</u>
<b>EXPENDITURES:</b>				
<b>Construction:</b>				
Labor	17,000	3,800	3,777	23
Fringe benefits	3,000	2,300	2,232	68
Materials	20,000	6,700	6,698	2
Equipment rental	<u>        </u>	<u>1,700</u>	<u>1,708</u>	<u>(8)</u>
<b>Total construction</b>	<u>40,000</u>	<u>14,500</u>	<u>14,414</u>	<u>86</u>
<b>Routine maintenance:</b>				
Labor	12,000	9,700	9,623	77
Fringe benefits	6,000	4,900	4,840	60
Materials	4,000	2,200	2,129	71
Repairs & maintenance	12,000	7,800	7,772	28
Equipment rental	<u>8,000</u>	<u>11,800</u>	<u>11,765</u>	<u>35</u>
<b>Total routine maintenance</b>	<u>42,000</u>	<u>36,400</u>	<u>36,129</u>	<u>271</u>
<b>Traffic services:</b>				
Labor	1,000	300	282	18
Fringe benefits	500	200	126	74
Equipment rental	<u>500</u>	<u>1,000</u>	<u>981</u>	<u>19</u>
<b>Total traffic services</b>	<u>2,000</u>	<u>1,500</u>	<u>1,389</u>	<u>111</u>
<b>Winter maintenance:</b>				
Labor	12,000	12,900	12,875	25
Fringe benefits	6,000	4,900	4,902	(2)
Materials	2,000	900	903	(3)
Equipment rental	<u>12,000</u>	<u>17,200</u>	<u>17,190</u>	<u>10</u>
<b>Total winter maintenance</b>	<u>32,000</u>	<u>35,900</u>	<u>35,871</u>	<u>29</u>
<b>Administrative:</b>				
Administration cost	2,000	2,000	2,000	-
Professional services	<u>2,000</u>	<u>800</u>	<u>800</u>	<u>-</u>
<b>Total administrative</b>	<u>4,000</u>	<u>2,800</u>	<u>2,800</u>	<u>-</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**LOCAL STREET FUND**

**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Sidewalks:</b>				
Labor		18,700	16,192	2,508
Fringe benefits		9,400	7,610	1,790
Materials		300	260	40
Equipment rental		4,400	10,812	(6,412)
Sidewalk cleaning/snow removal		1,200		1,200
Land improvements		5,000	4,053	947
<b>Total sidewalks</b>		<u>39,000</u>	<u>38,927</u>	<u>73</u>
<b>TOTAL EXPENDITURES</b>	<u>120,000</u>	<u>130,100</u>	<u>129,530</u>	<u>570</u>
<b>EXCESS OF REVENUE (UNDER) EXPENDITURES</b>	<u>-</u>	<u>(10,700)</u>	<u>(9,149)</u>	<u>1,551</u>
<b>FUND BALANCE - JULY 1</b>	<u>412,339</u>	<u>412,339</u>	<u>412,339</u>	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 412,339</u>	<u>\$ 401,639</u>	<u>\$ 403,190</u>	<u>\$ 1,551</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SEWER FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Sewer service charge	\$ 490,500	\$ 491,267	\$ 767
Sewer permits	200	200	-
<b>TOTAL OPERATING REVENUE</b>	<u>490,700</u>	<u>491,467</u>	<u>767</u>
<b>OPERATING EXPENSES:</b>			
Salaries	173,500	168,889	4,611
Fringe benefits	66,800	89,746	(2,946)
Administrative cost	38,000	38,000	
Dues and subscriptions	700	651	49
Supplies	9,500	9,511	(11)
Postage	800	791	9
Clothing	100	107	(7)
Chemicals	17,400	17,322	78
Education and training	1,500	1,436	64
Professional services	6,100	1,136	4,964
Contracted services	46,400	37,846	8,554
Licenses and fees	2,200	2,143	57
Telephone	1,200	1,159	41
Transportation	2,000	2,027	(27)
Insurance	5,100	7,847	(2,747)
Utilities	52,000	51,942	58
Equipment maintenance	8,400	8,338	62
Repairs and maintenance	5,000	5,015	(15)
Equipment rental	8,400	8,338	62
Sewer main maintenance	2,000	2,040	(40)
Equipment replacement	25,000	2,316	22,684
Capital outlay	2,100	2,088	12
Depreciation	295,000	295,901	(901)
Amortization	1,000	4,349	(3,349)
<b>TOTAL OPERATING EXPENSES</b>	<u>790,200</u>	<u>756,938</u>	<u>31,262</u>
<b>OPERATING LOSS</b>	<u>(299,500)</u>	<u>(267,469)</u>	<u>32,031</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>			
Interest income	22,500	25,605	3,105
Sale of fixed assets		87	87
Property tax levy	115,600	192,687	77,087
Contributions		28,200	28,200
Grant revenue		39,150	39,150
Bond interest expense	(18,900)	(47,433)	(28,533)
Paying agent fees		(222)	(222)
<b>TOTAL NONOPERATING REVENUE</b>	<u>119,200</u>	<u>238,073</u>	<u>118,873</u>
<b>(LOSS) BEFORE OPERATING TRANSFERS</b>	<u>(180,300)</u>	<u>(29,396)</u>	<u>150,904</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in	-	13,909	13,909
Operating transfers out	(127,100)	(77,623)	49,477
<b>TOTAL OTHER FINANCING (USES)</b>	<u>(127,100)</u>	<u>(63,714)</u>	<u>63,386</u>
<b>NET (LOSS)</b>	<u>\$ (307,400)</u>	<u>\$ (93,110)</u>	<u>\$ 214,290</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**WATER SUPPLY FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Water sales	\$ 714,000	\$ 691,605	\$ (22,395)
Sale of material and labor	9,700	9,672	(28)
Water permits	200	200	-
Fire hydrant rental	60,000	60,000	-
<b>TOTAL OPERATING REVENUE</b>	<u>783,900</u>	<u>761,478</u>	<u>(22,422)</u>
<b>OPERATING EXPENSES:</b>			
Salaries	28,300	15,157	13,143
Fringe benefits	21,600	21,659	(59)
Administrative cost	38,000	38,000	-
Supplies	1,800	1,761	39
Postage	600	601	(1)
Professional services	345,000	342,776	2,224
Contracted services	1,200	1,257	(57)
Telephone		50	(50)
Transportation		15	(15)
Insurance	5,000	5,120	(120)
Utilities	3,300	3,292	8
Equipment maintenance	1,000	984	16
Repairs and maintenance	1,400	1,360	40
Maintenance of mains	10,600	10,637	(37)
Equipment rental	10,800	10,771	29
Equipment replacement	21,300		21,300
Depreciation	163,200	163,336	(136)
Amortization		3,303	(3,303)
<b>TOTAL OPERATING EXPENSES</b>	<u>653,100</u>	<u>620,079</u>	<u>33,021</u>
<b>OPERATING INCOME</b>	<u>130,800</u>	<u>141,399</u>	<u>10,599</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>			
Interest income	51,000	52,894	1,894
Sale of fixed assets		153	153
Property taxes		136,684	136,684
Interest expense	(131,000)	(196,195)	(65,195)
Paying agent fees		(446)	(446)
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<u>(80,000)</u>	<u>(6,911)</u>	<u>73,089</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>50,800</u>	<u>134,488</u>	<u>83,688</u>
<b>OTHER FINANCING SOURCES:</b>			
Operating transfers in		41,741	41,741
<b>NET INCOME</b>	<u>\$ 50,800</u>	<u>\$ 176,229</u>	<u>\$ 125,429</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**NORTH PARK FUND**

**SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Charges for services	\$ 205,300	\$ 205,668	\$ 368
Sale of materials	8,000	7,887	(113)
<b>TOTAL OPERATING REVENUE</b>	<u>213,300</u>	<u>213,555</u>	<u>255</u>
<b>OPERATING EXPENSES:</b>			
Salaries	49,800	49,924	(124)
Fringe benefits	18,100	18,058	42
Administrative cost	9,000	9,000	-
Supplies and tools	8,900	8,826	74
Merchandise	500	500	-
Professional services	2,000	1,998	2
Contracted services	1,000	971	29
Telephone	2,000	2,017	(17)
Community promotion	2,300	2,230	70
Postage	200	196	4
Insurance	1,300	1,249	51
Utilities	40,800	41,756	(956)
Repairs and maintenance	6,800	6,837	(37)
Equipment rental	1,500	1,425	75
Dues and subscriptions	500	519	(19)
State sales tax	100	93	7
Depreciation	32,100	32,087	13
Bank Charge - Credit cards	1,400	1,378	22
<b>TOTAL OPERATING EXPENSES</b>	<u>178,300</u>	<u>179,064</u>	<u>(763)</u>
<b>OPERATING INCOME</b>	<u>35,000</u>	<u>34,491</u>	<u>(509)</u>
<b>NONOPERATING REVENUE:</b>			
Interest income		56	56
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>35,000</u>	<u>34,547</u>	<u>(453)</u>
<b>OTHER FINANCING (USES):</b>			
Operating transfers out	(55,000)	(55,000)	
<b>NET LOSS</b>	<u>\$ (20,000)</u>	<u>\$ (20,453)</u>	<u>\$ (453)</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**MARINA FUND**

**SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Charges for marina services	\$ 53,500	\$ 53,658	\$ 158
Sale of marina material and labor	132,100	132,220	120
<b>TOTAL OPERATING REVENUE</b>	<u>185,600</u>	<u>185,878</u>	<u>278</u>
<b>OPERATING EXPENSES:</b>			
Salaries	28,000	28,079	(79)
Fringe benefits	9,600	9,549	51
Administrative cost	7,000	7,000	
Office expense	700	739	(39)
Supplies and tools	3,700	3,753	(53)
Merchandise	109,400	97,268	12,132
Professional services	1,500	1,550	(50)
Telephone	1,500	1,504	(4)
Transportation	700	640	60
Community promotion	700	649	51
Postage	100	91	9
Insurance	2,300	4,964	(2,664)
Utilities	11,500	11,305	195
Repairs and maintenance	31,000	8,482	22,518
Equipment rental	700	742	(42)
Dues and subscriptions		50	(50)
License		633	(633)
Diesel tax	2,200	1,977	223
State sales tax	8,000	7,854	146
Depreciation	83,300	85,110	(1,810)
Bank Charge - Credit cards	3,400	3,347	53
<b>TOTAL OPERATING EXPENSES</b>	<u>305,300</u>	<u>275,286</u>	<u>30,014</u>
<b>OPERATING LOSS</b>	<u>(119,700)</u>	<u>(89,408)</u>	<u>30,291</u>
<b>NONOPERATING REVENUE:</b>			
Interest income		25	25
<b>NET LOSS</b>	<u>\$ (119,700)</u>	<u>\$ (89,383)</u>	<u>\$ 30,317</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**INTERNAL SERVICE FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b><u>FINAL</u> <u>BUDGET</u></b>	<b><u>ACTUAL</u></b>	<b><u>VARIANCE</u></b>
<b>OPERATING REVENUE:</b>			
Rental of equipment	\$ 150,500	\$ 150,546	\$ 46
<b>OPERATING EXPENSES:</b>			
Salaries	9,500	9,419	81
Fringe benefits	4,500	4,490	10
Administrative cost	1,000	1,000	-
Supplies and tools	1,300	1,233	67
Repair parts	6,400	6,338	62
Professional services	1,100	1,100	-
Telephone	1,200	1,213	(13)
Gas and oil	21,700	21,672	28
Insurance	4,700	4,677	23
Equipment maintenance	3,000	2,926	74
Capital Outlay	87,000		87,000
Depreciation	45,400	51,946	(6,546)
<b>TOTAL OPERATING EXPENSES</b>	<u>186,800</u>	<u>106,014</u>	<u>80,788</u>
<b>OPERATING INCOME</b>	<u>(36,300)</u>	<u>44,532</u>	<u>80,834</u>
<b>NONOPERATING REVENUE:</b>			
Interest income	31,000	31,982	982
Sale of assets	2,900	2,895	(5)
<b>TOTAL NONOPERATING REVENUE</b>	<u>33,900</u>	<u>34,877</u>	<u>977</u>
<b>NET INCOME</b>	<u>\$ (2,400)</u>	<u>\$ 79,409</u>	<u>\$ 81,810</u>

## CITY OF HARBOR BEACH, MICHIGAN

ENTERPRISE FUNDS  
SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION  
FOR THE YEAR ENDED JUNE 30, 2008

	CAPITAL ASSETS			ACCUMULATED DEPRECIATION			NET ASSET COST
	BALANCE JUNE 30, 2007	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2008	PROVISION FOR DEPRECIATION	BALANCE JUNE 30, 2008	
<b>SEWER FUND:</b>							
Buildings	\$ 1,052,143			\$ 1,052,143	\$ 26,304	\$ 512,925	\$ 512,914
Equipment	4,362,338	\$ 22,191		4,384,529	187,335	3,557,973	826,556
Sewer lines	2,254,364			2,254,364	82,262	940,902	1,313,462
<b>TOTAL SEWER FUND</b>	<b>7,668,845</b>	<b>22,191</b>	<b>\$ -</b>	<b>7,691,036</b>	<b>295,901</b>	<b>5,038,104</b>	<b>2,652,932</b>
<b>WATER SUPPLY FUND:</b>							
Buildings	2,540,310			2,540,310	50,806	618,141	1,871,363
Equipment	1,903,297	22,953		1,926,250	16,730	1,841,436	84,814
Water mains	4,743,064			4,743,064	93,715	979,536	3,763,528
Water tower	104,282			104,282	2,085	76,218	26,064
<b>TOTAL WATER SUPPLY FUND</b>	<b>9,290,953</b>	<b>22,953</b>	<b>-</b>	<b>9,313,906</b>	<b>163,336</b>	<b>3,569,137</b>	<b>5,745,799</b>
<b>NORTH PARK:</b>							
Buildings	442,701			442,701	15,408	223,915	218,786
Machinery & equipment	272,635			272,635	7,046	200,020	72,615
Sites & improvements	356,788			356,788	9,633	189,604	177,184
<b>TOTAL NORTH PARK</b>	<b>1,082,124</b>	<b>-</b>	<b>-</b>	<b>1,082,124</b>	<b>32,067</b>	<b>613,539</b>	<b>468,585</b>
<b>MARINA:</b>							
Buildings	165,570			165,570	6,928	145,009	20,561
Docks	799,646			799,646	5,226	797,033	2,613
Harbor & parking lot	1,857,224	39,259		1,896,483	64,283	1,243,727	652,756
Machinery & equipment	529,254	2,950		532,204	8,673	480,109	52,095
<b>TOTAL MARINA</b>	<b>3,351,694</b>	<b>42,209</b>	<b>-</b>	<b>3,393,903</b>	<b>85,110</b>	<b>2,665,877</b>	<b>728,026</b>
<b>TOTALS</b>	<b>\$ 21,393,615</b>	<b>\$ 87,353</b>	<b>\$ -</b>	<b>\$ 21,480,969</b>	<b>\$ 576,434</b>	<b>\$ 11,885,657</b>	<b>\$9,595,312</b>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS  
AT JUNE 30, 2008**

<b>MATURITY</b>		<b>INTEREST</b>		
<u>DATE</u>	<u>PRINCIPAL</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>TOTAL</u>
11/01/08	\$ 74,000	5.25%	\$ 80,036	\$ 154,036
05/01/09			78,094	78,094
11/01/09	77,000	5.25	78,094	155,094
05/01/10			76,073	76,073
11/01/10	81,000	5.25	76,073	157,073
05/01/11			73,946	73,946
11/01/11	86,000	5.25	73,946	159,946
05/01/12			71,689	71,689
11/01/12	90,000	5.25	71,689	161,689
05/01/13			69,326	69,326
11/01/13	95,000	5.25	69,326	164,326
05/01/14			66,833	66,833
11/01/14	100,000	5.25	66,833	166,833
05/01/15			64,208	64,208
11/01/15	105,000	5.25	64,208	169,208
05/01/16			61,451	61,451
11/01/16	111,000	5.25	61,451	172,451
05/01/17			58,538	58,538
11/01/17	116,000	5.25	58,538	174,538
05/01/18			55,492	55,492
11/01/18	123,000	5.25	55,492	178,492
05/01/19			52,264	52,264
11/01/19	129,000	5.25	52,264	181,264
05/01/20			48,877	48,877
11/01/20	136,000	5.25	48,877	184,877
05/01/21			45,307	45,307
11/01/21	143,000	5.25	45,307	188,307
05/01/22			41,554	41,554
11/01/22	150,000	5.25	41,554	191,554
05/01/23			37,616	37,616
11/01/23	158,000	5.25	37,616	195,616
05/01/24			33,469	33,469
11/01/24	167,000	5.25	33,469	200,469
05/01/25			29,085	29,085
11/01/25	175,000	5.25	29,085	204,085
05/01/26			24,491	24,491
11/01/26	185,000	5.25	24,491	209,491
05/01/27			19,635	19,635
11/01/27	194,000	5.25	19,635	213,635
05/01/28			14,542	14,542
11/01/28	204,000	5.25	14,542	218,542

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS  
AT JUNE 30, 2008

MATURITY <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
05/01/29			9,187	9,187
11/01/29	215,000	5.25	9,187	224,187
05/01/30			3,544	3,544
11/01/30	135,000	5.25	3,544	138,544
<b>TOTALS</b>	<u>\$ 3,049,000</u>		<u>\$ 2,150,478</u>	<u>\$ 5,199,478</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2000 GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS  
AT JUNE 30, 2008**

<b>MATURITY</b>	<b>INTEREST</b>			<b>TOTAL</b>
	<b>DATE</b>	<b>PRINCIPAL</b>	<b>RATE      AMOUNT</b>	
	11/01/08		\$      5,253	\$      5,253
	05/01/09	\$    95,000	5.125%      5,253	100,253
	11/01/09		2,819	2,819
	05/01/10	110,000	5.125      2,819	112,819
<b>TOTALS</b>		<u>\$   205,000</u>	<u>\$    16,144</u>	<u>\$   221,144</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2004 GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS  
AT JUNE 30, 2008**

<b>MATURITY</b>	<b>INTEREST</b>			<b>TOTAL</b>
	<b>DATE</b>	<b>PRINCIPAL</b>	<b>RATE      AMOUNT</b>	
	11/01/08		\$ 19,040	\$ 19,040
	05/01/09	\$ 40,000	3.900% 19,040	59,040
	11/01/09		18,260	18,260
	05/01/10	40,000	4.000 18,260	58,260
	11/01/10		17,460	17,460
	05/01/11	40,000	4.150 17,460	57,460
	11/01/11		16,630	16,630
	05/01/12	40,000	4.300 16,630	56,630
	11/01/12		15,770	15,770
	05/01/13	45,000	4.400 15,770	60,770
	11/01/13		14,780	14,780
	05/01/14	45,000	4.500 14,780	59,780
	11/01/14		13,768	13,768
	05/01/15	45,000	4.500 13,768	58,768
	11/01/15		12,755	12,755
	05/01/16	50,000	4.600 12,755	62,755
	11/01/16		11,605	11,605
	05/01/17	50,000	4.700 11,605	61,605
	11/01/17		10,430	10,430
	05/01/18	50,000	4.800 10,430	60,430
	11/01/18		9,230	9,230
	05/01/19	55,000	4.850 9,230	64,230
	11/01/19		7,896	7,896
	05/01/20	55,000	5.000 7,896	62,896
	11/01/20		6,521	6,521
	05/01/21	60,000	5.000 6,521	66,521
	11/01/21		5,021	5,021
	05/01/22	60,000	5.150 5,021	65,021
	11/01/22		3,476	3,476
	05/01/23	65,000	5.150 3,476	68,476
	11/01/23		1,803	1,803
	05/01/24	70,000	5.150 1,803	71,803
<b>TOTALS</b>		<u>\$ 810,000</u>	<u>\$ 368,890</u>	<u>\$ 1,178,890</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2003 INSTALLMENT PURCHASE AGREEMENT  
AT JUNE 30, 2008**

<b>MATURITY</b> <b><u>DATE</u></b>	<b><u>PRINCIPAL</u></b>	<b><u>INTEREST</u></b>		<b><u>TOTAL</u></b>
		<b><u>RATE</u></b>	<b><u>AMOUNT</u></b>	
10/01/08	\$ 30,000	3.190%	\$ 6,699	\$ 36,699
04/01/09			6,221	6,221
10/01/09	30,000	3.190	6,221	36,221
04/01/10			5,742	5,742
10/01/10	30,000	3.190	5,742	35,742
04/01/11			5,264	5,264
10/01/11	35,000	3.190	5,264	40,264
04/01/12			4,705	4,705
10/01/12	35,000	3.190	4,705	39,705
04/01/13			4,147	4,147
10/01/13	40,000	3.190	4,147	44,147
04/01/14			3,509	3,509
10/01/14	40,000	3.190	3,509	43,509
04/01/15			2,871	2,871
10/01/15	40,000	3.190	2,871	42,871
04/01/16			2,233	2,233
10/01/16	45,000	3.190	2,233	47,233
04/01/17			1,515	1,515
10/01/17	45,000	3.190	1,515	46,515
04/01/18			798	798
10/01/18	50,000	3.190	798	50,798
<b>TOTALS</b>	<b><u>\$ 420,000</u></b>		<b><u>\$ 80,707</u></b>	<b><u>\$ 500,707</u></b>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2006 GENERAL OBLIGATION REFUNDING BONDS  
AT JUNE 30, 2008**

<b>MATURITY</b> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/08			\$ 44,700	\$ 44,700
05/01/09	\$ 20,000	3.750%	44,700	64,700
11/01/09			44,325	44,325
05/01/10	20,000	3.750	44,325	64,325
11/01/10			43,950	43,950
05/01/11	145,000	4.000	43,950	188,950
11/01/11			41,050	41,050
05/01/12	160,000	4.000	41,050	201,050
11/01/12			37,850	37,850
05/01/13	170,000	4.000	37,850	207,850
11/01/13			34,450	34,450
05/01/14	185,000	4.000	34,450	219,450
11/01/14			30,750	30,750
05/01/15	205,000	4.000	30,750	235,750
11/01/15			26,650	26,650
05/01/16	225,000	4.000	26,650	251,650
11/01/16			22,150	22,150
05/01/17	245,000	4.000	22,150	267,150
11/01/17			17,250	17,250
05/01/18	265,000	4.000	17,250	282,250
11/01/18			11,950	11,950
05/01/19	290,000	4.000	11,950	301,950
11/01/19			6,150	6,150
05/01/20	300,000	4.100	6,150	306,150
	<u>\$ 2,230,000</u>		<u>\$ 722,450</u>	<u>\$ 2,952,450</u>



## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council  
City of Harbor Beach, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of Harbor Beach, Michigan's basic financial statements and have issued our report thereon dated November 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harbor Beach, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harbor Beach, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Harbor Beach, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Harbor Beach, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Harbor Beach, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Harbor Beach, Michigan's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. (2008-1 through 2008-6)

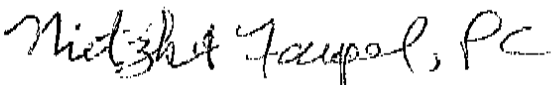
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Harbor Beach, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-5 and 2008-6 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Harbor Beach, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
NIETZKE & FAUPEL, P.C.  
PIGEON, MICHIGAN

November 28, 2008



## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council  
City of Harbor Beach, Michigan

### Compliance

We have audited the compliance of the City of Harbor Beach, Michigan, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Harbor Beach, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Harbor Beach, Michigan's management. Our responsibility is to express an opinion on the City of Harbor Beach, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harbor Beach, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Harbor Beach, Michigan's compliance with those requirements.

In our opinion, the City of Harbor Beach, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## Internal Control Over Compliance

The management of the City of Harbor Beach, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Harbor Beach, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Harbor Beach, Michigan's internal control over compliance.

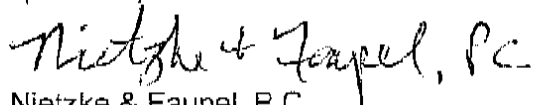
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Harbor Beach, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Harbor Beach, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Nietzke & Faupel, P.C.  
Pigeon, Michigan

November 28, 2008

**CITY OF HARBOR BEACH**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

1. There were no findings or questioned costs for the year ended June 30, 2007.

## **CITY OF HARBOR BEACH**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008**

#### **A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Harbor Beach.
2. Significant deficiencies and material weaknesses have been disclosed during the audit of the financial statements and are included in Part B of this schedule.
3. No instances of noncompliance material to the financial statements of the City of Harbor Beach were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the City of Harbor Beach expresses an unqualified opinion.
6. Audit findings, if any, relative to the major programs for the City of Harbor Beach are reported in Part C of this schedule.
7. The programs tested as major programs included: Safe Drinking Water State Revolving Fund CFDA 66.468
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Harbor Beach was not determined to be a low-risk auditee.

#### **B. FINDINGS-FINANCIAL STATEMENTS AUDIT**

##### **Significant Deficiencies**

###### **2008-1 Cash Receipts**

Condition: We noted that there was a lack of segregation of duties within the cash receipts area. The City Treasurer is one of the office employees that receive cash and checks, prepares the cash receipts documents, and records the cash receipts in the accounting records.

Criteria: The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system of the City will result in much greater internal control in this particular area. The custody of the cash should be separated from the recording of the cash receipts.

## **CITY OF HARBOR BEACH**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008**

#### **FINDINGS-FINANCIAL STATEMENTS AUDIT: (CONTINUED)**

Effect: Because of the lack of segregation of duties for cash receipts, the City's cash could be misappropriated.

Cause of Condition: All office employees having access to the cash receipts records.

Recommendation: To achieve control over the cash receipts, certain duties involving receipts should be handled by more than one member of the City's personnel. The following procedures should be enacted to ensure efficient internal control: 1) One employee should open the mail or receive the cash from the City residents, make a control list of all receipts, and restrictively endorse all items received as "for deposit only." This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited. 2) The receipts should then go to the City Treasurer for further processing and deposit to the bank on a timely basis. 3) Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

Auditee Response:

#### **2008-2 Cash Receipts – Decentralized Location**

Condition: At the present time, cash receipts of the City's decentralized locations (North Park Campground and the Marina) are being deposited by the employees of the Campground and Marina. These same employees are also responsible for collecting the cash receipts and recording the receipt of the cash, checks, and credit card information.

Criteria: Segregation of duties is an essential internal control for the area of cash receipts, especially for decentralized locations. The depositing of the cash should be separated from the recording keeping for the cash. Also, the use of cash registers is an important control device for decentralized locations.

Effect: Because of the lack of segregation of duties for cash receipts, the City's cash could be misappropriated.

Cause of Condition: The policy of allowing the employees at the decentralized locations to deposit the cash collected at the Campground and Marina.

## **CITY OF HARBOR BEACH**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008**

#### **FINDINGS-FINANCIAL STATEMENTS AUDIT: (CONTINUED)**

Recommendation: All cash, checks, and credit card transactions should be delivered to City Hall for the City Treasurer to deposit to the proper bank accounts. Along with the cash collections, cash register tapes and any other cash collection records should be delivered to City Hall with the cash collections. The City Treasurer should reconcile the cash collection records with the cash turned into City Hall for accuracy. Once the cash collections are reconciled they should then be deposited by the City Treasurer.

Auditee Response:

#### **2008-3 Purchase Requisitions**

Condition: Purchase requisitions are being completed after the invoice for the purchase is received.

Criteria: Purchase requisitions should be prepared and approved before the purchase is made.

Effect: This procedure could allow for unauthorized purchases.

Cause of Condition: There are no procedures in place to require that purchase requisitions are approved prior to the purchase of goods or services.

Recommendation: All purchases that require purchase requisitions should be approved by a City official authorized to disburse City funds.

Auditee Response:

#### **2008-4 Utility Billings**

Condition: Currently the quarterly utility billings are prepared and mailed by the Billing Clerk without a member of management reviewing and approving the quarterly billings. Also, the Billing Clerk is responsible for collecting and depositing the utility charges from the City residents.

## **CITY OF HARBOR BEACH**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008**

#### **FINDINGS-FINANCIAL STATEMENTS AUDIT: (CONTINUED)**

Criteria: Internal controls should include review and approval of the utility billing reports by a member of management to provide oversight of the billing procedures. Also, preparation of the billings and recording of the collections should be segregated from the access to the cash collections.

Effect: The current billing and collection procedures and the lack of oversight by a member of management could allow for the misappropriation of City funds.

Cause of Condition: There are no procedures in place where management is required to review and approve the utility billings prior to their completion and there is a lack of segregation of duties in the collections of the utility charges.

Recommendation: A member of management should review and approve all utility billing reports prior to the completion and mailing of the quarterly utility billings. Also, the collection of the utility charges should be performed by an employee that does not have access to the utility billing records.

Auditee Response:

#### **Material Weaknesses:**

##### **2008-5 Preparation of year end closing procedures**

Condition: This year, as in the past, we assisted the accounting staff with the basic year-end bookkeeping and accounting procedures that are necessary to prepare the books for audit purposes. This also included the preparation of several material year end adjusting entries that were necessary to keep the financial statements from being materially misstated.

Criteria: The accounting staff should be able to perform the year end closing procedures and prepare the appropriate year end closing entries in order to ensure that the year end financial statements are not materially misstated. Also, the year end closing procedures should be supervised and reviewed by City officials with an adequate knowledge of the City's activities during the fiscal year.

Effect: This situation could allow the misstatement of the financial statements.

## **CITY OF HARBOR BEACH**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008**

#### **FINDINGS-FINANCIAL STATEMENTS AUDIT: (CONTINUED)**

Recommendation: With adequate training, the accounting staff should become familiar with the necessary procedures to complete the year end accounting. In time, the condition of the accounting records should become better and less assistance will be required in this area by the auditors. We suggest that the City provide its accounting staff with the necessary training to ensure they are able to efficiently prepare the year end accounting procedures for the audit.

Auditee Response:

#### **2008-6 Preparation of the GAAP basis financial statements**

Condition: Along with assisting with the year end closing procedures to the City's accounting records, we also assisted the City by preparing the annual financial statements (including required disclosures) of the City prepared in accordance with generally accepted accounting principles.

Criteria: The responsibility for the City's annual financial statements prepared in accordance with generally accepted accounting principles rests with the management of the City. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated.

Effect: This situation could allow the misstatement of the financial statements.

Recommendation: We recommend that the City acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with generally accepted accounting principles.

Auditee Response:

#### **C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

Safe Drinking Water State Revolving Fund

1. None noted

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass- through Entity Identifying</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency:			
Michigan Department of Environmental Quality:			
Safe Drinking Water State Revolving Fund	66.468	5271-01	\$ <u>730,883</u>

**Note A - Reconciliation to GAAP Financial Statements**

State of Michigan portion of loan proceeds	\$ 3,291,540
Federal portion of loan proceeds	<u>730,883</u>
Total loan proceeds received during fiscal year June 30, 2008	\$ <u>4,022,423</u>

(See Note 8, page 27)